BUSINESS WEEK

Who leaders are in nation's retailing

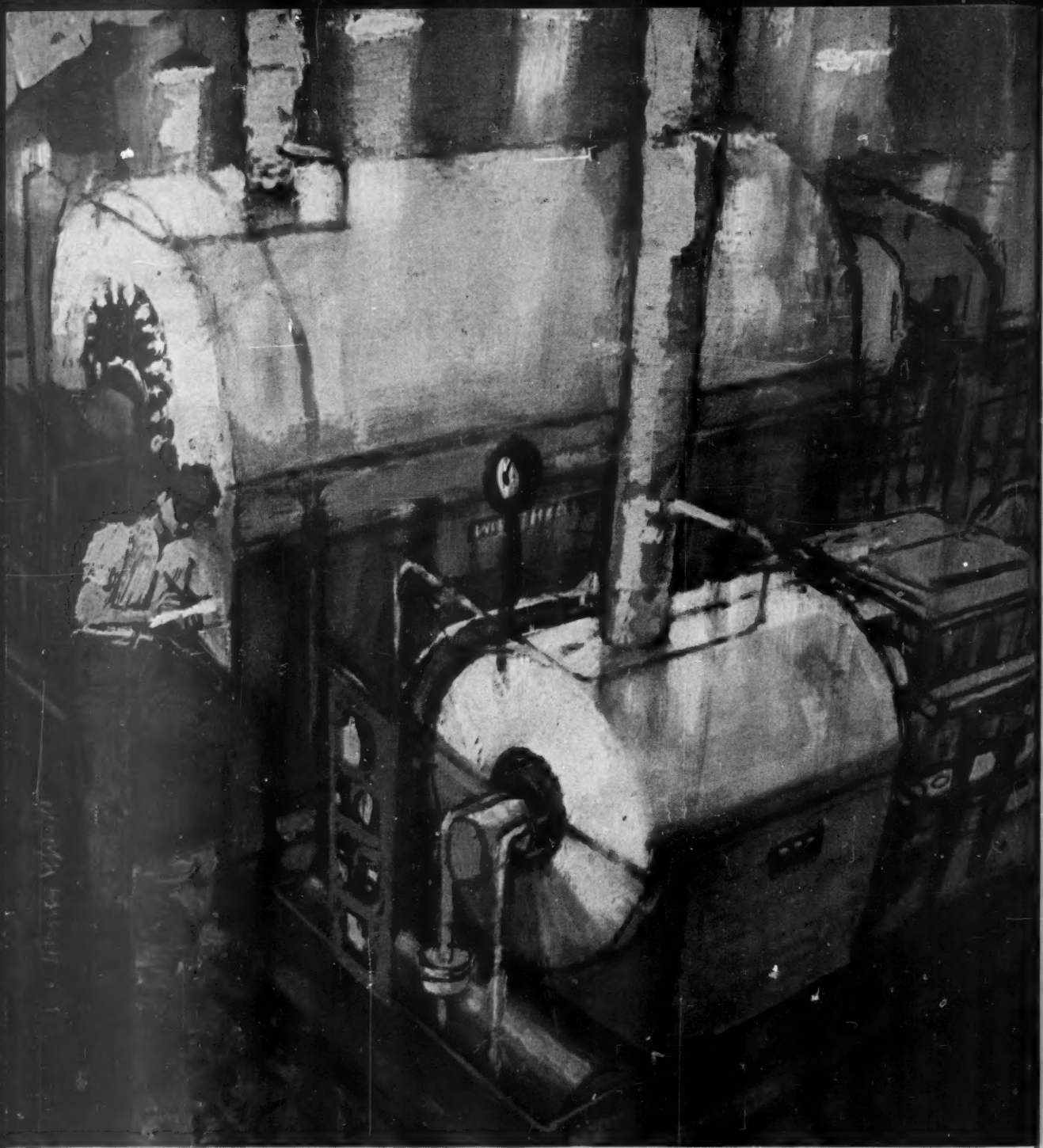
[Marketing]

Below: Hanford's Herbert M. Parker is leading the effort to squeeze the full potential out of the atom and make its power economical. Page 53



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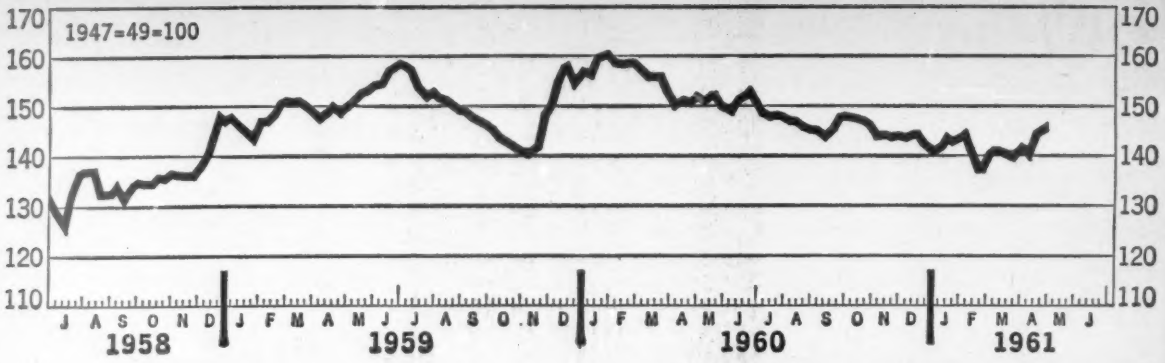
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Number 1653

Figures of the week



	1953-55 average	Year ago	Month ago	Week ago	§ Latest Week
BUSINESS WEEK index chart	133.3	152.7	142.3	145.9r	146.5*
Production					
Steel ingot [thous. of tons]	2,032	2,210	1,632	1,784r	1,858
Automobiles	125,553	135,515	101,576	124,459r	114,331
Engineering const. awards [Eng. News-Rec. 4-wk. daily av. in thous.]	$52,412	$90,810	$65,891	$75,691	$74,811
Electric power [millions of kilowatt-hours]	10,819	13,656	14,163	14,311	14,254
Crude oil and condensate [daily av., thous. of bbl.]	6,536	7,014	7,351	7,245	7,249
Bituminous coal [daily av., thous. of tons]	1,455	1,433	1,104	1,170r	1,2[illegible]4
Paperboard [tons]	247,488	307,102	320,592	322,181	319,809
Trade					
Carloadings: miscellaneous and l.c.l. [daily av., thous. of cars]	70	60	52	54	54
Carloadings: all others [daily av., thous. of cars]	47	45	32	33	35
Department store sales index [1947-49=100, not seasonally adjusted]	121	146	140	130	144
Business failures [Dun & Bradstreet, number]	198	325	350	320	369
Prices					
Industrial raw materials, daily index [BLS, 1947-49=100]	89.2	91.9	92.1	93.6	93.5
Foodstuffs, daily index, [BLS, 1947-49=100]	90.5	76.6	78.1	79.2	78.8
Print cloth [spot and nearby, yd.]	19.8¢	20.7¢	17.5¢	17.5¢	17.5¢
Finished steel, index [BLS, 1947-49=100]	143.9	186.8	186.2	186.1	186.1
Scrap steel composite [Iron Age, ton]	$36.10	$33.17	$39.50	$37.50	$36.50
Copper [electrolytic, delivered price, E&MJ, lb.]	32.394¢	33.000¢	29.000¢	29.000¢	29.260¢
Aluminum, primary pig [U. S. del., E&MJ, lb.]	20.6¢	26.0¢	26.0¢	26.0¢	26.0¢
Aluminum, secondary alloy #380, 1% zinc [U. S. del., E&MJ, lb.]	††	25.04¢	22.61¢	21.89¢	21.69¢
Wheat [No. 2, hard and dark hard winter, Kansas City bu.]	$2.34	$2.10	$1.95	$2.05	$1.98
Cotton, daily price [middling, 1 in., 14 designated markets, lb.]	34.57¢	32.11¢	31.27¢	31.49¢	28.39¢
Wool tops [Boston, lb.]	$1.96	$1.75	$1.62	$1.75	$1.75
Finance					
500 stocks composite, price index [S&P's, 1941-43=10]	31.64	54.59	65.45	65.37	65.55
Medium grade corporate bond yield [Baa issue, Moody's]	3.59%	5.25%	5.01%	5.00%	5.01%
Prime commercial paper, 4 to 6 months, N. Y. City [prevailing rate]	2-2⅛%	4¼%	3%	2⅞%	2¾%
Banking Millions of dollars					
Demand deposits adjusted, reporting member banks	††	60,702	59,488	61,643	61,412
Total loans and investments, reporting member banks	††	103,055	108,673	109,744	109,739
Commercial, industrial and agricultural loans, reporting member banks	††	31,841	33,063	32,747	32,624
U. S. gov't guaranteed obligations held, reporting member banks	††	25,991	29,155	29,965	29,986
Total federal reserve credit outstanding	26,424	27,234	27,863	28,009	27,775
Gold stock	21,879	19,360	17,388	17,390	17,390

Monthly figures of the week

		1953-55 average	Year ago	Month ago	Latest Month
Private expenditures for new construction (in millions)	April	$2,390	$3,022	$2,768	$3,013
Public expenditures for new construction (in millions)	April	$980	$1,170	$1,176	$1,316
Employment (in millions)	April	62.2	62.2	65.5	65.7
Unemployment (in millions)	April	2.5	3.7	5.5	5.0
Consumer credit outstanding (in billions)	March	$34.1	$51.3	$54.1	$53.9
Manufacturers' inventories (seasonally adjusted, in billions)	March	$45.2	$54.3	$53.6	$53.3

* Preliminary, week ended April 29, 1961.
†† Not available. Series revised.

r Revised.
§ Date for 'Latest Week' on each series on request.

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EDITORS REPORT

Easier-to-read type

With this issue, a number of important typographical changes are being made in Business Week. They are designed chiefly to make the magazine easier to read. In addition, they give a clearer, more orderly look to the publication.

A few minor changes were effected in the front cover design. Probably the one most apparent is the disappearance of the thermometer. It was supposed to show the latest reading of the Business Week Index of Business Activity. However, the line chart and other, more complete data on the Figures of the Week page—and the location of the page (always on page 2)—made the continued display of the thermometer unnecessary. Veteran readers may share the feeling of some of our editors that an old friend is gone.

The type now being used for the text of the articles is called Caledonia (formerly, Electra type face was used). The body type is also a little larger size than before to improve visibility.

For headlines, we have selected Record Gothic type (we used to set heads in Tempo).

And for subheads, News Gothic type is being used.

More space is allotted for the headlines, with the larger area employed to give the reader more summary information at the start.

Headlines are to be handled the same way as text so far as capitalization is concerned. Only the first word of a headline, just as in an ordinary sentence, is capitalized.

Proper names, of course, are capitalized wherever they appear.

Usually, headlines in magazines run horizontally across the page. That has been true in Business Week in the past. However, in the new format, vertical headlines also will be used.

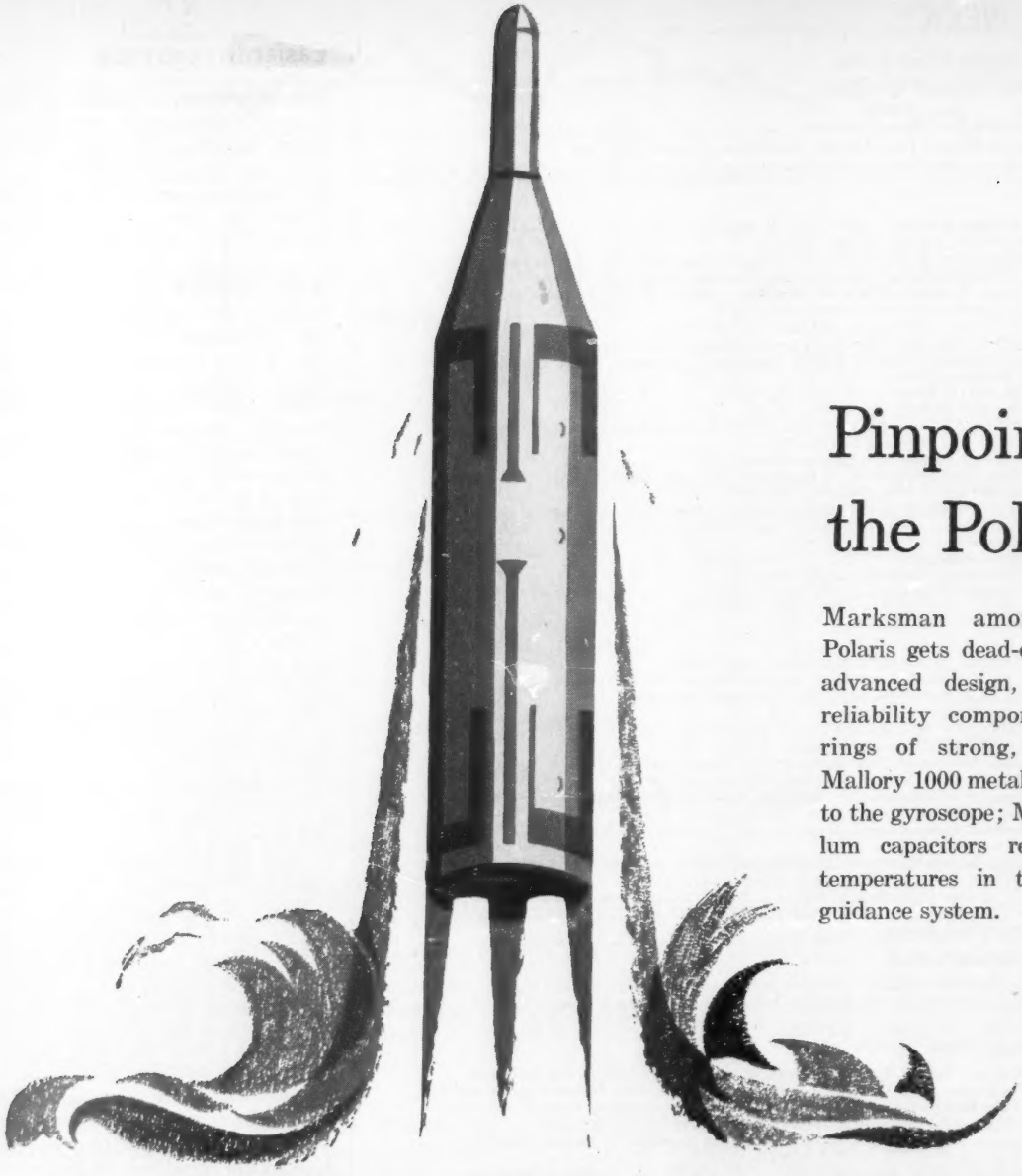
Again, to facilitate reading, headlines will be written for the Outlook pages for the first time.

One result of the combined changes is to reduce the total words published in each issue.

We do not consider the new format as a radical change. Rather, it represents one more progressive step in the continuing effort by the editors to make the editorial product even more readable, more useful than ever before.

We hope you like it.

The Editors



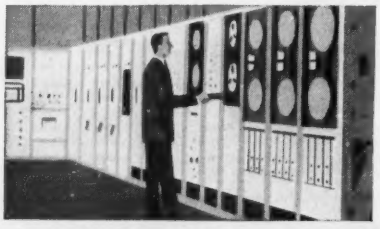
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Business outlook BW

May 6, 1961

Damp April keeps unemployment at worrisome level

Despite the very real signs of recovery on the way, no dent has yet been made in unemployment. There were 500,000 fewer out of work in April, to be sure. **But seasonal adjustments in the figure leave the unemployment rate at 6.8% of the labor force**—the same worrisome level to which it has clung for the past five months.

Total jobs climbed by 200,000. Some of the luster rubs off this showing, though, when you consider that the upturn should have been healthier at this time of year.

The main trouble was in agriculture, which usually adds 500,000 hands come April. But with wet weather this year, farmers delayed both planting and hiring, and **farm jobs just held even.**

Off the farm, employment edged up as expected, but it will be another week before the government's breakdown reveals which industries gained the most.

The figures already released point to **several April soft spots.** The number of workers jobless 15 weeks or longer rose to 2.1-million, a postwar record. And there was a 120,000 increase in the total unemployed 27 weeks or more. The new total of 923,000 in this category suggests that **even with a pickup in business the problem will hang on.**

Auto sales prospects: 5.5-million this year

Sales of domestic-made new cars continued to strengthen in April, but **it still looks far from a boom year.** Ward's Automotive Reports is forecasting second-quarter deliveries by dealers of 1,454,000 units, which would put first-half sales of domestic cars at something more than 2.6-million.

Ordinarily, more cars are sold in the first six months than in the second half of a year. And Ward's makes the point that up to now, 1961 sales have been running at a rate of between 80% and 85% of deliveries last year, when total domestic car sales added up to about 6.1-million.

Lots can happen between now and the end of December. For one thing, there are some new car sizes coming out in the fall, and they may stimulate the market. But as the figures stand now, **it looks like combined domestic and imported sales this year of no more than 5.5-million.**

Copper prices end 16 months without hike

The first copper price increase in 16 months arrived this week (page 2), but it was scarcely a surprise. The hike has been in the making for some time; it would have come earlier except for the fear of some producers that it might frighten customers in domestic markets.

These markets have been displaying a firmer tone recently. March shipments of copper fabricators set an 18-month high—115,163 tons. From preliminary soundings, it looks as if April was even better. Apparently fabricators have started to replenish their stocks.

Meanwhile, **the gap between U.S. and foreign prices had been widening.** At the last, U.S. producers were getting 2¢ to 3¢ a lb. less than foreign competitors for their metal. And **the prices of copper scrap—in high** demand and tight supply—have been climbing for weeks.

Add to this the summer strike threat hanging over one major U.S. producer, plus labor unrest in Northern Rhodesia and mounting tension in the Congo—both important copper sources—and you get some idea of the forces behind this week's price boost.

Building continues strong in April

New construction is holding up well despite heavy rains over much of the East. Work set in place added up to $44.8-billion (at an annual rate). This was a fraction less than March, but it bettered April, 1960, by 2.6%.

Business outlook Continued

Private residential construction perked up some—as it should with the advent of spring—but remained 5.6% below a year ago (page 30). **Elsewhere in the private sector, the news was all good** in comparison with last year. The brightest spots: **office buildings, hotels, and factories.**

Weather was again something of a culprit in the public area. Some outdoor projects such as highways had to be delayed. If May skies smile, **the backlog should give this month's results a real lift.**

New orders begin to pile up

The surest sign of a business upturn is a report that new orders are arriving faster than shipments are leaving the factory. That's exactly what happened in March—for the second month in a row.

Manufacturers booked new orders at a seasonally adjusted rate of $29.8-billion in March, according to the Commerce Dept. **This topped sales by $330-million—the widest margin since December, 1959** (if you omit a one-month rush of defense orders last fall).

In most recoveries, some industries recoup faster than others. The leaders ignite a chain reaction that soon spreads to the laggards. That's why economists keep such close watch on hardgoods: Their performance usually signals major shifts in business.

So there's particular cause for celebration in the March surge of new orders for durables. The total exceeded February by more than $500-million, even after seasonal adjustment. Raw and fabricated metals accounted for $330-million of the improvement. Another $110-million came from nonelectrical machinery, including machine tools.

Only electrical machinery lagged behind February, despite a slight sales gain. **This category—which includes household appliances—needs a strong pickup in homebuilding as a tonic.** But the expansion under way in electric utilities and industrial plants will give a push to heavy electrical gear.

Manufacturers bring inventories down

By the end of March, manufacturers had pared inventories to a level that looks comfortable by comparison with the start of the year.

Factory inventories declined to $53.3-billion, seasonally adjusted, down $260-million from the month before. Reductions in January and February aggregated only $170-million. **March's sizable liquidation brought inventory-sales ratios down to 1.81**—still high by historic standards (1960 average was 1.78). It's a marked improvement, however, over January, 1961, when they hit a 29-month high of 1.87.

Chances are many companies will still play it close to the vest—producing on a hand-to-mouth basis, buying only what they need to meet orders. They can nibble away more at their stocks—but they're not too far from the point where they will want to rebuild.

Consumers start borrowing again

Consumers were in a slightly more expansive mood in March. **They added to their installment debt for the first time this year.** Deferred payment accounts increased $48-million in March, after adjustment for seasonal swings.

More than $4-billion in new installment credit was extended in March —up from $3.8-billion in February, and the best showing since December.

Credit the pickup in car sales for a large share of the improvement. New auto credit extended hit close to $1.3-billion in March, $100-million better than the February rate. Repayments on auto loans continued to exceed extensions, but by the narrowest margin in three months.

Balmy March weather and the earlier Easter provided additional lift.

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BW May 6, 1961
Number 1653

BUSINESS WEEK

Steel begins to bounce back

A steady climb in production (chart) builds confidence that the second quarter will run 20% or 25% ahead of last quarter. It's a sign of the general turnaround

Steelmakers are rebounding from their ghastly first quarter with a new confidence this week. They expect to make and sell 20% more steel this quarter than last—if they're lucky, maybe 25%.

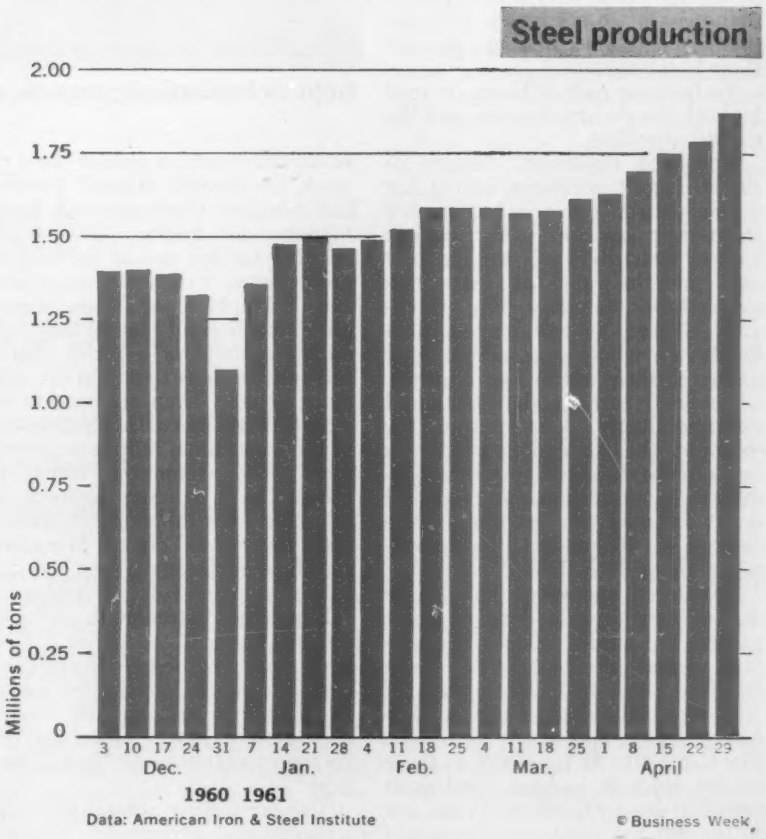
A gain of any such magnitude would be good news not just for the steel industry but for all U. S. business. Steel has been hardest hit of the country's major industries in the recession that began more than a year ago. Until it begins to show some real bounce, economists question if business over all can sustain a strong recovery.

Thus, steel is a key industry, both for its own sake as an employer, producer, and user of materials and equipment and for its role as an indicator of business in general.

Cause for cheer. Ordinarily, even a 25% increase over the first quarter wouldn't be regarded as a very good quarter for steel (from November through February, steel operations averaged less than 50% of capacity). But it would be a cheering change from the last three quarters. Even the 20% boost that now seems likely would yield considerable relief to the surprisingly large number of steelmakers who have been paying boomtime dividends regularly but haven't earned them since mid-1960.

Sales prospects. As is almost always true, Detroit will make the difference between a 20% or a 25% pickup this quarter.

Already the auto companies have ordered enough steel for renewed production to give May a tidy increase over April. This supports steelmen's confidence of a 10% pickup in May. If they get another 10% in June, they would more than accomplish a 25% gain for the quarter. But they can't yet be at all sure about June—they watch auto sales as closely as Detroit does, and they don't yet see sales that quite match the new production schedules.



Still to come. The best thing about Detroit's higher car-building schedules is that most of the business is still to come, as far as the steelmakers are concerned. One analyst foresees what might be as much as a 50% higher potential for June than for February. And, he believes, two-thirds of the extra tonnage had not been shipped by May 1.

With so much depending on new car sales, Pittsburgh is impatient to get Detroit's figures for the final 10 days of April. If car sales ran, say, at 23,000 cars per day, steelmen could be rather confident that Detroit's schedule of 1.5-million cars in the second quarter would stand up. They could also feel surer of their own 25% increase for the quarter.

Other products. In other markets, too, the steel companies see signs that industrial production has made

its turn and is heading up again. Inventory-cutting has ended, and seasonal factors are providing a lift. Fairly widely, and particularly among the light flat-rolled products, the intake of new orders continues to rise as it has for eight weeks.

All these things, along with the stepup in automotive assembly in April, have already added 1¼-million tons per month to the steel production of the rock-bottom January and February levels.

The profits picture. The four bleak winter months of under 50% of capacity are safely in the past, and steel companies have managed to continue paying dividends while not earning them for three or four quarters. That the industry isn't heading straight for the poorhouse may prove to be the best testimonial to the soundness of steel's heavy and continuous capital spending through three lean years.

To be sure, cash is being drained by both the dividend policy and the capital spending.

Unearned dividends. Sixteen of the 20 largest producers are paying dividends, although only four earned them last quarter. Nine haven't earned their dividends for the past nine months, and at least two avoided this category only technically. Three haven't earned dividends in a whole year, and another missed in three out of four quarters.

Retained earnings have suffered correspondingly. Last quarter, for example, the 20 leading producers collectively should have shown $58-million in retained earnings—based on averages of the last three years. Instead of $58-million, the companies showed $4-million.

Continued spending. The longer the industry pays dividends it hasn't earned, the harder it looks to maintain capital spending rates of the last few years. In the lean years of 1958-60, steel averaged almost $1.2-billion a year, and it will spend that much in 1961. As far ahead as there is any point in looking, steel must spend at least **$1-billion a year, not** to expand but just to stay even and get its costs down.

It's safe to assume that the efficiency of the plant installed in the past three or four years played a major part in bringing the industry through its particularly poignant recession. The result now, though it probably won't be fully visible until the fourth quarter, may be a faster snapback in earnings than the casual observer might expect.

How it may work. It's clear that steel has bought a substantial gain in efficiency since its last thoroughly good year in 1957, but it is harder to pin down the effect of this on 1961 finances—there's no way an outsider can get at firm breakeven points for each company. Still, you can rationalize like this:

- Of the 20 largest producers, most can break even at a 50% operating rate, or a few points below it, and most can make their dividends at 60% or a few points higher.
- On that basis, if these companies produce at the industry average, many should make their dividends this quarter, even if the industry doesn't quite realize the 25% sales increase it is gunning for.
- Retained earnings can't be expected to grow much until the fourth quarter, when the operating rate must move up sharply to, say, 75% if the industry is to meet its 95-million-ton production goal. And that's when the investor will get a look at how much earning power he got for his $4.7-billion capital investment during four poor years.

Payroll boost. One cloud may obscure the view of that fourth quarter: the 14¢ employment cost increase that's to take effect Oct. 1. But this cost may just possibly be offset by a steel price increase.

Automation problem tackled

Presidential advisory committee is studying how to achieve both technological progress and higher employment

At its first working session, held this week, the recently formed Presidential Advisory Committee on Labor-Management Policy (BW—Mar.25 '61,p26) tackled one of the toughest problems on its agenda, automation and unemployment. The advisory group reached substantial agreement on the outlines of a broad strategy for studying how to obtain the maximum benefits from automation and other technological advances—and, at the same time, reduce unemployment. The committee called the present level of unemployment "intolerable," but the members made it plain they would not try to consider specific remedies until they had studied the problem from all angles.

Significant agreement. After the session, Labor Secy. Arthur J. Goldberg found the degree of agreement reached by the committee—whose 21 members are equally divided among management, labor, and public representatives—as "quite significant."

The committee agreed that rapid technological progress is "essential to increasing the efficiency and growth rate of the economy." But the group recognized that achieving full technological efficiency must be done "without significant and lasting unemployment."

Best insurance. In the committee's view, the best insurance against unemployment was to be found in general economic policies designed to achieve "the highest practicable rate of over-all economic growth." For, as the committee put it, "with full employment, the problems of adjustment to technological change are more easily solved; without it, they can never be adequately met."

But the committee recognized that, beyond the need for increasing the pressure of general demand upon the economy's resources, a nation undergoing rapid technological change has "special" employment policy requirements.

The committee recognized a need for better vocational education programs—both for new entrants to the labor force and for technologically unemployed workers. The group suggested that existing unemployment compensation programs be altered to encourage retraining programs.

Mobility stressed. The President's advisory group also recognized the need for "serious study" of ways to facilitate labor mobility, which they defined as "the movement of workers from one plant to another, from one industry to another, from one skill to another, and even from one area to another."

In calling for programs to increase mobility, the committee implied that new approaches must be found for sharing the costs of moving and retraining workers, for dealing with seniority and pension rights, and for minimizing the human problems involved.

In its first working session, the group avoided specific issues on which individual members disagreed. For instance, it put off to a later session discussion of the pros and cons of a shorter work week, advocated by David J. McDonald, president of the United Steelworkers and a committee member.



Communication Satellites, Inc., headed by H. W. Paige, is set up as . . .

GE moves fast for place in space

Communication Satellites, Inc., offers up to 10% ownership to any company that seeks it. FCC permission sought for setting up satellite communications system

In a two-pronged thrust calculated to cut the ground out from under any single company seeking to dominate the budding commercial satellite communications business, General Electric Co. this week moved swiftly:

- It formed a new company—Communication Satellites, Inc.—for the expressed purpose of providing industry with a "focal point" around which to establish a worldwide commercial communications satellite system. The temporary president is H. W. Paige (picture).
- It applied to the Federal Communications Commission with plans to set up such a system at an estimated initial cost of $250-million.

Behind GE's moves is a situation that has been growing increasingly tense in recent weeks (BW—Mar.11 '61,p117). Up for grabs is the $37.7-million development contract for Project Relay—the National Aeronautics & Space Administration's code name for the first U. S. active satellite communications system. Most observers now concede that whoever wins this important development contract will automatically get the inside track in the development of communications satellites for the foreseeable future.

Initiative. GE spokesmen admit that the company's move to set up a completely new company at this particular time was primarily aimed at "taking the initiative" away from the opposition—primarily AT&T.

GE has always taken a dim view of AT&T's plans, announced last October, to invest $170-million over the next several years in the development of a space communications network. "The AT&T system would freeze out other companies," says a GE spokesman. In contrast, Communication Satellites, Inc., would act as "an international common carrier's common carrier." Any company interested in getting into the space communications business could take up to 10% ownership in it. And GE would guarantee that no single company could dominate the outfit.

By law, GE is not permitted to solicit participation by any other company in Communication Satellites, Inc., until the new corporation is approved by the Attorney General and the Federal Communications Commission. And no company has yet contacted GE to ask for a piece of it. But there is little doubt that a number of companies—which have already filed their own proposals to FCC for a space communications system—are interested in discussing the possibility of participation.

Anteing up. In its application to FCC, GE says it has authorized advances up to $1-million to the new company for start-up expenses, and that its own board of directors has been advised that the ante may have to be boosted to $50-million. A working satellite communications system is estimated to cost at least $250-million. But an extremely elaborate network could cost a great deal more.

GE scientists base their cost estimates on the engineering, testing, and launching of a 10-satellite, 20-ground-station setup. All satellites would have to be placed in precise equatorial orbits at an altitude of 6,000 miles; traveling at 10,000 mph. in order to make four orbits around the earth daily.

It should be possible, GE figures, to start launchings as early as 1964; partial service could be expected shortly after the launching of the fifth satellite in mid-1964.

Each satellite would weigh about 1,000 lb. and would require a total of 390 watts of electrical power to operate its transmitting equipment. Each would contain seven radio repeater packages—four capable of handling 300 voice channels each, one for handling a television signal and two to provide service to low capacity stations.

At the moment, the big problem is the precise orbits the satellites would have to maintain. GE officials admit that this may not be feasible by 1964 unless certain U. S. rocket developments materialize soon.

Whether or not NASA adopts this particular plan for Project Relay, GE thinks its concept for Communication Satellites, Inc., is basically sound, though. The company would operate whatever communications system NASA or FCC picked, says a GE spokesman. GE wants the Administration to rule whether such a joint venture is legal and consistent with national policy.

Lots of cash but no housing boom

Builders and lenders report mortgage rates easing, money not hard to get, and only buyers' demand slow. They expect no more than 1.2-million starts for this year

How much loosening of mortgage money will it take to spur homebuilding? Ever since the transition from tight to easier money last fall began driving down interest rates and loosening up terms, lenders, builders, and economists alike have wondered whether this could induce the boom—or boomlet—the homebuilding industry and so many others would like so much to see (BW—Nov.5'60,p125).

Many economists theorized that cheaper money would produce a strong surge in homebuilding and put the industry once more into its traditional role of anti-recession agent. In the past, such stimulants have succeeded in moving homebuilding starts upward during recessions, providing good medicine for a temporarily ailing economy.

In a score of cities across the country this week hundreds of builders and lenders disputed the theory that cheap money can produce big demand. Though terms are loose and interest rates nicely below 6%—that "sonic barrier" that borrowers hesitate to break through, according to one student of lending—there's not a trace of a boom.

Slack demand. The demand that exists is hard to pinpoint. Much of it comes from second-home buyers, some from young married couples. Builders report a great many people "just looking" (pictures).

True, most builders are experiencing an upturn in activity. Yet the reason for it is not looser money. They say unenthusiastically the upturn is seasonal—it would have happened anyway. Many describe activity as just slightly better than 1960, a year that goes down in most builders' books as bad. Even where an occasional builder is smartly ahead of last year's pace he is inclined to credit the business recovery for it, not easier money.

The problem is there's not enough demand. For instance, in Florida, Dade County has 3,000 unsold homes, compared to 1,500 last August. A vice-president of a savings and loan association comments: "Builders don't need money. They're more concerned about finding borrowers than the money supply."

Small expectations. It's this situation—though not so intense elsewhere as in Florida—that makes builders and some lenders scoff at reports that starts may rise sharply this year. Most still feel starts will run to only 1.2-million or so. "If there's going to be a boom this year, the indications must be coming from somewhere besides Pittsburgh," says an S&L official there. His feeling is echoed elsewhere.

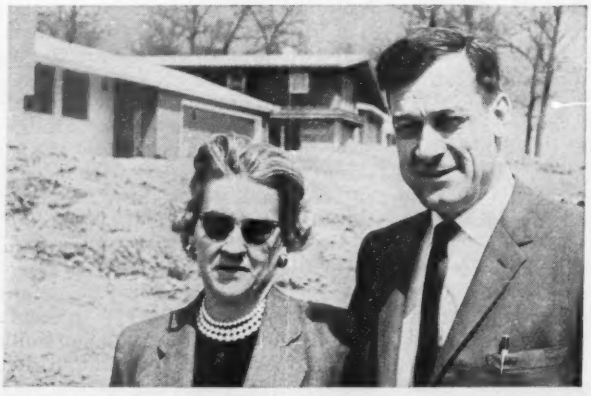
Statistics seem to back up such a view. The Commerce Dept. reports that builders have been putting up homes—at least up to Apr. 1—at an annual rate of 1.2-million. This time last year the rate was running a shade lower—1.1-million—and the industry finished the year with 1.2-million actual starts.

How they see it. Here is the way lenders and builders—many of whom report "quite an upturn" in April—size up their activity for the year. A Milwaukee builder puts the likely range of starts from "down 5% or 10% to up 2%." A major California bank expects an increase of 5% to 6%.

The Dallas Homebuilders Assn. says about 10,000 homes will be built there—the same as last year. Cleveland builders say the "famine" might be over. In Philadelphia, George Leopold, general manager of Denny Building Corp., reports a marked spring pickup but adds cautiously: "It could go either way."

Of course, easier money has produced a bound here and there. A Los Angeles S&L says it's getting 50% more loan inquiries than in January and closing 50% more loans than last year. A Boston lender finds a definite pickup in homes costing between $13,900 and $22,000.

A Los Angeles builder says he's



Mr. and Mrs. Stanley Porch, among visitors to Milwaukee development, are representative of today's buyers. A home owner already, Porch has three children. Only shopping and looking around now, he really plans to buy house soon.



Mr. and Mrs. Henry Slawinski have nearly finished paying for present home, want to get "into a newer, better neighborhood." Couple lives in Milwaukee with two daughters, one at college, has been "looking" for a month.



In this Milwaukee development, sales agent Rite Realty Corp. ran survey of buyers, found 70% were already home owners.

going back to GI housing because "We always have three or four times as many people look at models as have downpayments. With GI housing we can sell to these people because we don't have to pay out all our profits for financing."

Too much money. "Lord knows," says a San Francisco lender, "there's certainly enough money around to support a boom." Among lenders everywhere—with the lone exception of a banker Business Week reporters talked to in Los Angeles—there's a strikingly similar feeling about the money supply.

Most of the sentiment is that the supply is ample—even too ample. The Cleveland Trust Co., largest bank in the state, has stopped discounting FHA-insured loans. One builder notes that for the first time in five years he has been able to get local money from a commercial bank to back VA housing.

Falling rates. Cleveland's bank rate is still listed at 5¾%, as it was three months ago. But then about 10% of the loans were being made at 5½% for so-called preferred borrowers; now about 40% are at 5½%. One banker sees the rate down to 5¼% in three more months.

Pittsburgh lenders say pressure will move conventional loan rates down to 5¼%.

In Atlanta, James G. Hardy, president of Spratlin Harrington & Co., says 5¾% is now the "competitive rate," but "maybe we'll get down to 5½% before the year is out."

Reluctant. On their own, builders and lenders seem reluctant to build past last year's mark. Some say a return to 1959's 1.5-million starts is not only unlikely but unwanted—they're afraid of overbuilding, pointing out that last year a surplus of homes held down demand.

This, though, is not expected to cool enthusiasm in Congress for Pres. Kennedy's huge new omnibus housing program, which the Senate Housing Subcommittee not only approved but increased by some hundreds of millions. It voted to double the $750-million Kennedy had asked for the Federal National Mortgage Assn.'s special assistance program; this would enable Fanny Mae to buy up $1.5-billion of mortgages that might not find a private taker. Another development under the housing program might be lower downpayments for FHA mortgage-insured homes.

Some lenders object to this trend, which would lengthen mortgage life. One Florida lender says: "What Washington is doing is continuing to borrow against tomorrow's market. On a conventional loan of $15,000 payable in 23½ years at 5¾%, total interest is $12,300. A similar FHA loan of $15,000 over 40 years at 5½% will cost $24,000 in interest. For the privilege of paying $15 less a month ($82.50 vs. $97.50), the buyer will pay the equivalent of $25 a month more in interest for 40 years."

A Florida S&L executive sees the government bringing in "buyers who shouldn't be in the market," and creating foreclosure problems.

Puzzled. In an industry known for unbridled optimism, this reflects a new, sober note. There's a suspicion that a basic change is occurring, and industry spokesmen are sometimes fearful, sometimes unsure, when they try to read the future.

A Houston mortgage man says, "In a year or two we might have a good boom." A California builder thinks family formations, at a low ebb, won't rise much before 1963. Others see the great unsatisfied demand for housing after World War II now largely met.

The National Assn. of Home Builders in Chicago, and several local associations are perplexed over the "lack of a boom." The NAHB says, "Nothing stands in the way of one, yet there isn't one." The association is investigating to "see if we have something more serious on our hands than just a cyclical phenomenon."



Mr. and Mrs. Robert Marquardt represent second large group that shows up at developments. They are young, have young children. "We're just looking, it's sort of our Sunday hobby," says Marquardt.



Mr. and Mrs. Bernie Bell own their present home, really don't plan to buy. "We're just looking to see the new houses," he says to development sales agent. The Bells are typical of many "lookers" who are already satisfied.



Rep. Wright Patman speaks for Democrats on Joint Economic Committee. They find Kennedy program falls short.



Rep. Thomas B. Curtis of Missouri leads Republican members who say Kennedy's economic plans go too far.

Two-way fire on Kennedy program

Democrats on Joint Economic Committee suggest that a tax cut for individuals might do more for the economy than the proposed incentive for business spending

The Kennedy Administration's policies for ending the recession and stimulating our long-term economic growth were judged this week by the Congressional Joint Economic Committee—and both the Democratic majority and the Republican minority found a lot to criticize.

Patman view. Over-all, the Democratic majority, led by Chmn. Wright Patman of Texas (picture), backs the direction of the Administration's approach but finds it too feeble in degree. The report says the Administration's programs so far are "small as compared to the gap between the nation's expected economic performance and its economic potential."

Patman has long had a reputation as an easy money man and an advocate of drastic government action to stimulate the economy. But in this case there is no visible dissent from other Democrats on the committee. The Democrats favor:

1. Larger spending and quick action on programs Kennedy has already sent to Congress, such as housing, federal aid to education, flood control and health programs.

2. A new, anti-recession public works program of matching grants to local communities for projects such as fire stations, streets, water and sewerage systems, and parks that could be started in three months and finished within a year.

3. Federal Reserve policies that would shove interest rates down.

While not recommending it, the Democrats also wonder if a tax cut for individuals, to stimulate consumer demand, might not do more to increase spending on plant and equipment than Kennedy's proposal of a tax credit to business.

Turning point. The Democrats on the committee agree that "the 1960-61 recession is at a turning point," but they take a dim view of chances for a strong upturn.

They expect the present 6% to 7% rate of unemployment to continue until December, and they say flatly that unemployment will not be as low as the Administration's goal of a 4% rate by the end of 1962.

The committee's report comes on top of the Labor Dept.'s April report on employment. The department's

word is "no improvement yet." The figures show unemployment reduced by 500,000, but still at 6.8%; employment climbed by 200,000, which is less than the usual seasonal upturn.

Dissent on tax incentive. One of the most striking departures from the President's program is the Democratic majority's suggestion that Kennedy's tax program isn't what's needed at all.

The committee goes along with the proposals to raise $1.7-billion in additional revenues by such things as ending the 4% dividend credit and the $50 exclusion, tightening up on expense accounts, and taxing the profits of U. S. subsidiaries overseas as they are earned. But the Democrats aren't at all sure that Kennedy has the right remedy for stimulating business to modernize its plant.

The $1.7-billion that Kennedy would give in tax credits geared to business spending on plant and equipment may provide "relatively little stimulus in investment unless final consumer demand is stimulated," the Democrats say.

Effect in expansion. On technical grounds, the majority says that the investment credit "may tend to accentuate fluctuations in business activity" due to the fact that investment normally expands in boom times. The credit idea might give more tax reduction in these periods than it would in a recession.

The Democrats also stress that, as the economy grows, the present tax structure tends to pull increasing percentages of gross national product into the Treasury. So the majority members of the committee want a periodic review of the tax system to recommend "a downward revision of taxes—not a temporary tax cut."

GOP view. The Republicans, led by Rep. Thomas B. Curtis of Missouri (picture, page 32) and Sen. Prescott Bush of Connecticut, questioned just about every proposal.

They find the report a "narrowly partisan political document" based on the "hypothesis that unemployment and economic growth are solved by increasing aggregate consumer purchasing power and that the federal government is the primary institution to bring this about."

The Republicans say the Kennedy proposals, "shorn of their semantics," turn out to be a "watered-down" version of Eisenhower's proposals. They find the recovery coming along strongly, and they suggest that "it would be courting inflation and a new gold crisis to plan now new governmental spending programs which would mature when the economy was already advancing without them."

How tax plans would work

Treasury Secy. Dillon spells out proposals for credit on capital spending, for taxing U. S. companies' overseas earnings, and for cracking down on expense accounts

A day after the Joint Economic Committee report came out (page 32), Treasury Secy. Douglas Dillon laid before the House Ways & Means Committee a fat 300 pages of explanations and examples of how the Administration's proposed tax changes would affect millions of taxpayers.

One big bundle of details concerned Pres. Kennedy's $1.7-billion tax credit to business for spending on new plant and equipment. But Dillon also showed how the Treasury would drastically tighten up on expense account living, would withhold $600-million a year on dividend and interest payments, and would currently tax the earnings of U. S. companies' overseas subsidiaries in industrialized nations.

Capital spending. On the tax credit for plant and equipment, Dillon wants companies to be able to carry unused credits forward against future taxes for five years. This helps the company whose capital spending fluctuates.

To prevent the bunching of expenditures to gain advantage of the maximum 15% credit (BW—Apr.22 '61,p25), Dillon also wants any spending deficiency below the depreciation write-off in any year to be charged against the depreciation base for future years.

The Treasury asks other safeguards. It asks authority to deny an investment tax credit to any new company formed solely to take advantage of the benefit and to consolidate the tax credit figures of businesses that are under common or closely related ownerships.

Overseas subsidiaries. Dillon devoted far more space to taxation of foreign income than to any other part of his package. It's a complicated subject, made more complex by the laws of foreign countries.

Today, earnings of overseas subsidiaries are taxed by the U. S. only when they are sent home. The proposed treatment would include, as gross income of the U. S. equity owners, a pro-rating of undistibuted earnings of the subsidiaries.

One rule applies to profits from a "controlled foreign corporation," which is one in which no more than 10 U. S. taxpayers own at least half the stock. In such a subsidiary, all U. S. owners—whether holders of 1% or 20% of the stock—would be subject to tax on their share of each year's earnings, distributed or not.

A new rule would be applied to any foreign corporation formed after the law is passed, in which U. S. companies or individuals had an interest, even if it doesn't meet the definition of a controlled foreign corporation. If it isn't such a corporation, a tax would be paid by any owner of at least a 10% interest. Rules of constructive ownership are proposed to close any loopholes.

Tax havens. To get at income now tucked away in foreign tax havens, the Treasury wants to slap U. S. taxes on forms of income that it regards as derived outside the tax haven country. Examples: profits and fees on goods sold for consumption outside that country; engineering fees, rentals, and royalties originating outside the country, and profits from international shipping and air operations.

A stricter rule would be used to determine if a company is in fact a manufacturing concern in a tax haven country: The company would have to show that cost of production exceeds 25% of the cost of raw materials or components—a measure of "value added."

Withholding plan. The biggest furor of all may arise from the plan for tax withholding on dividends and interest.

Dillon lists five kinds of dividend that would come under this plan (including payments made by stock-

brokers in lieu of dividends and dividends from regulated investment companies and real estate investment trusts) and five that are exempt (such as stock dividends or stock rights, dividends paid by Federal Reserve banks or by foreign corporations, and those paid to affiliates by corporate groups that filed a consolidated return in the preceding year).

Six kinds of interest would be subject to withholding, including payments on U. S. obligations (including savings bonds) and payments by savings and loan associations, credit unions, and banks. Eight kinds of interest are excluded from the plan, including that paid by individuals, mortgage interest, and any interest that is now tax exempt.

The payer of the dividend or interest would withhold 20% of each check or credit to an account; it would remit this money directly to the Internal Revenue Service. On his tax return, the individual would show as income the 80% he received plus the 20% he didn't; after computing his tax, he would deduct the withheld amount from his payment.

People whose dividend or interest income wouldn't put them into the 20% income tax bracket would be allowed to file "a simple refund form" each quarter to recover withheld taxes of $10 or more.

Expense accounts. Treasury and IRS officials want Congress to authorize them to write stern new standards for deductions of travel, entertainment, and business gifts. They proposed to rule out entertaining at nightclubs, theaters, prize fights; costs of yachts, hunting lodges, fishing camps; country club and similar dues; all expenses for gifts in excess of $10 a year per recipient.

For traveling, $24 per day would be the ceiling on meals and lodging, and only the part allocated to business on a combined business-vacation trip would qualify. This is twice the present allowance for government employees, though their $12 a day may be raised by Congress to $15.

Hearing schedule. Starting next Monday, non-government witnesses will have at least three weeks to express their views. No specific legislation has been proposed by the Treasury Dept. as yet.

Strategy for defending the dollar

In two-pronged action, the Treasury is sweetening short-term rates to discourage outflow of capital, and will hold D-marks to ward off any speculative runs

The salient points of the Administration's new and flexible battle plan to defend the dollar and strengthen the international monetary network of the free world were beginning to emerge this week.

A good deal of progress already has been made. The dollar is no longer under the severe pressure that plagued it during the latter months of 1960, although there has been no significant inflow of short-terms funds. Partly, this is because of the improvement in the balance of payments. Treasury officials estimate that the first quarter actually showed a surplus, although they explain that this may be only a temporary situation. It was brought on by continued strength in U. S. exports to booming Europe at a time when imports were down because of the recession here. Treasury Secy. Douglas Dillon warned against complacency, saying that the situation "is still ticklish."

Sign of confidence. From the Treasury viewpoint, a more significant sign that the defense of the dollar has been bolstered is that the Cuban fiasco did not lead to any run on the dollar. This may not seem so positive an achievement, but Treasury officials feel that the failure of any run to occur is the best indication of the new confidence in the dollar—and of the strength of our new defenses.

Some of the plans are still unsettled. But basically, the Administration, led by Dillon and Treasury Undersecy. Robert V. Roosa, has formulated a defense in depth that is calculated to cut down the deficit in the balance of payments and prevent the kind of currency crises that erupted against the dollar last year and the pound sterling in 1957.

Short-term rates. The defensive blueprint involves both foreign and domestic action. On the domestic side, the Treasury this week sold two issues for cash—a 3% one-year certificate and a 3¼% two-year note—that were plainly designed to bolster short-term rates. Although the Administration is anxious to help stimulate the economy by providing ample credit, it recognizes that it might encourage a fresh outflow of funds to foreign money markets if its interest rates were out of line. So the Treasury placed coupons on its new issues that the market freely labeled as being on the "sweet" side.

D-mark agreement. On the foreign front, Roosa announced that this week's prepayment by Germany of $587-million of its postwar debt would be made partially in D-marks rather than in dollars. With the marks available—the amount is somewhat less than half of the entire payment—the Treasury will be in a position to feed them into the market if speculators seek to dump dollars for marks. In fact, the Treasury feels that the knowledge it is holding marks should help to ward off any speculative run.

This holding of D-marks gives the U. S. a new and powerful weapon for dealing with disruptive short-term currency movements. Indeed, foreign exchange experts are now assuming that the Treasury will hold other foreign currencies as a means of defending the dollar.

Any substantial holding of foreign currencies would require legislative approval, but limited amounts could be held without any changes in present laws. The deal with Germany actually calls for the U. S. to return the D-marks it does not use and take the difference in dollars.

The D-mark agreement gives the U. S. a weapon that has been found valuable by European central banks and governments. But the U. S. has no intention of making any formal arrangement with the signatories of the European Monetary Agreement, whose members have agreed privately to hold up to a certain amount of the currencies of the other members. As the U. S. sees it, formal American participation in this arrangement might induce other countries to seek a similar guarantee from us, and could lead them to exchange

their dollars for gold if we did not comply.

New proposal. But the U.S. plans to cooperate with the EMA members in exchanging information and ideas. And it is working with these "key" currency countries on a new proposal to bolster the free world's monetary system.

The proposed arrangement calls for any "key" currency country that is enjoying a surplus in its balance of payments to put a portion of the surplus at the disposal of the International Monetary Fund. These could be used to prevent a speculative run against a country showing a deficit.

This new proposal is much less radical than the Triffin plan (BW—Dec.17'60,p27), which entailed transforming the IMF into a central bank for the free world. It also differs substantially from the proposal of Edward M. Bernstein, which called for selective increases in the subscriptions of IMF members (BW—Apr. 22'61,p45). Administration officials feel that the increases could be limited to a much smaller list—the "key" currency countries. They regard this as a much more logical course, one that could be handled with less formality and pushed through without a significant change in the IMF. Even so, Congressional approval will be needed, and the Administration hopes that it can work out all the details in time to present to Congress before the IMF's annual meeting in September.

"Three-layer" approach. The concept of the key currency countries is one that Europeans seem willing to accept. And the U.S. is pursuing a "three-layer" approach to bring it about:

- In Paris, Organization for Economic Cooperation & Development (OECD), now in the process of formation, has set up a nine-member group of key currency nations to iron out the details. The key countries include the U.S., Britain, Canada, Germany, France, the Netherlands and Switzerland.
- In Basle, Switzerland, the U.S. has established close liaison with the key central bankers who hold a highly secret meeting each month at the Bank for International Settlements. This is where the European Monetary Agreement was reached.
- In Washington—where the IMF is headquartered, and where the actual mechanics of any agreement will be administered—the U.S. is anxious to bring the IMF into the act so that countries that are not members of the key currency group will be fully informed of arrangements.

GE head has his say

In Senate hearings, GE Pres. Paxton says he knew nothing of price fixing in electrical equipment until federal probes began, and other GE witnesses support him

Robert Paxton, president of the General Electric Co., told the Senate Antitrust & Monopoly Subcommittee this week that he had no knowledge of price fixing in the electrical equipment industry until federal grand juries began their probe in 1959.

Paxton, who will retire before the end of the month, was the top executive, past or present, to testify before the group headed by Sen. Estes Kefauver (D-Tenn.). The hearings sprang from price-fixing convictions in federal court.

Some earlier committee witnesses had testified that their superiors knew of meetings between competitors to talk about prices and bids on contracts (BW—Apr.29'61,p28). Paxton's testimony supported that of Arthur F. Vinson, GE vice-president and group executive, and William S. Ginn, former GE vice-president, that top GE officialdom did not know of the activities of subordinates.

Paxton did recall two incidents—in the late 1930s and the early 1950s—that made him suspect some GE employees might be meeting with competitors. But he said he believed that orders from company officials, including himself, had brought any such meetings to a halt.

Vinson testified that never in his 30 years with GE had he been aware of collusion between GE division or department heads and their counterparts in other companies to fix prices or divide markets. Ginn denied that either Paxton or GE Chmn. Ralph J. Cordiner had any knowledge of sessions with competitors. Cordiner will probably testify later.

Committee aim. The subcommittee is attempting to find out if any responsibility for the illegal meetings lies with top management.

The Justice Dept. also is showing interest in the same point. A federal grand jury in Philadelphia is hearing testimony from some company officials who had pleaded guilty to the earlier government charges—presumably to discover if their superiors had a hand in the illegal meetings.

After hearing the three GE executives, the subcommittee turned to Westinghouse Electric Corp., with seven Westinghouse witnesses called for later hearings this week.

Picture. The general picture presented during three weeks of hearings has been this: active participation at the department and division level by some GE executives in spasmodic meetings with competitors, with precautions to prevent knowledge of these clandestine sessions from reaching their superiors.

In testimony last week by four former GE executives, however, Vinson was named as allegedly having, on occasion, ordered executives in GE's Switchgear & Control Div. to get together with competitors to talk about prices and market sharing. Vinson denies any part in illegal acts. He was originally indicted but the charge was dropped after investigation.

Misunderstanding. Raymond W. Smith, former GE divisional vice-president, testified this week he often told Vinson of his meetings with competitors, making such comments as "I had a meeting with the clan this morning." Vinson denied ever hearing Smith use this phrase. He did recall mention of talking with "the boys," but said he thought Smith meant GE salesmen and customers. "I deeply regret I did not know what was going on," Vinson said.

Smith said Vinson, Paxton, Pres. Mark W. Cresap, Jr., of Westinghouse, and Westinghouse Vice-Pres. A. C. Montieth met to talk about transformer prices at a 1958 trade association meeting in Boston. The meeting was "acrimonious," Smith said, but afterward Vinson told him about it, and, it seemed to him, suggested he should arrange a meeting with Westinghouse on transformer prices, so he did.

Vinson acknowledged there had been a meeting, but said it was only to give Paxton and Cresap, both new on their jobs, a chance to meet, and there was no talk of prices or anything else illegal. He believed Smith had a "deep misunderstanding" about it. (Westinghouse, in a statement, said conversation at this meeting was "general and proper.")

In business

BW

Congress gets reorganization plans to speed decisions of SEC, FCC, and CAB

Pres. Kennedy has submitted to Congress reorganization plans to speed the lagging procedures of the Securities & Exchange Commission, the Federal Communications Commission, and the Civil Aeronautics Board.

In each case the plan is to give greater flexibility by allowing final decisions to be made by panels of commissioners, individual commissioners, hearing examiners, or other employees, depending on the importance of the case.

The full commission could then review any of these decisions, either on its own initiative or by accepting the petition of a party or intervener. At present, each case is heard at a lower level and then goes to the full commission, frequently with much duplication of testimony. A rejected applicant will continue to have the right of appeal to the courts.

Each plan will go into effect automatically in 60 days unless a simple majority in either house objects.

Postmaster General boosts fees on special delivery and money orders

Postmaster General J. Edward Day is boosting fees for special delivery service and money orders, and has notified the Interstate Commerce Commission that he plans to seek higher parcel post rates. The moves are part of Day's effort to trim the expected $830-million postal deficit for the fiscal year starting July 1 (BW—Apr.22'61,p38).

ICC usually grants parcel post increases requested by the Postmaster General, **who is required by law to seek higher rates whenever costs exceed revenues by more than 4%.**

On July 1, special delivery fees on all mail except first class will be increased by 10¢; the expected gain in revenue is $2.5-million a year. The higher money order fees are expected to provide another $5-million.

Twice-jilted Central now wants in on Norfolk & Western merger

Jilted in its two most recent bids for merger, the New York Central RR last week sought inclusion in a third railroad marriage. It asked the Interstate Commerce Commission to make it a fourth partner in the proposed merger of the Norfolk & Western, Nickel Plate, and Wabash railroads.

Last year the Central sought vainly to merge with the Baltimore & Ohio, and then to join the proposed B&O-Chesapeake & Ohio merger.

Now, says the Central's Pres. Alfred E. Perlman, if the Central isn't included in either the C&O-B&O combination or the Norfolk & Western's plans, it "will be denied the traffic strength to survive as an independent competitor."

First reactions to the Central's new plea are chilly. Said N&W's Pres. Stuart T. Saunders: "I can't believe Mr. Perlman is serious in his proposal to join us."

The issue is up to ICC, where hearings on the C&O-B&O affiliation are six weeks off. No date has been set for hearings on the N&W's plans.

Textile import curbs shunned for now, "adjustment assistance" to be tried

Pres. Kennedy has decided to experiment with government-sponsored "adjustment assistance" to bolster the textile industry against foreign competition, mostly from the Far East. For now, he will avoid import controls, but he has suggested that the domestic industry press its case for relief before the Office of Civil & Defense Mobilization.

Kennedy's program, which is expected to calm the textile state congressmen whose votes may be needed for other Administration bills, includes these points:

- The Commerce Dept. will expand research seeking new products, processes, and markets.
- The Treasury will review—and possibly increase—depreciation allowances on textile machinery.
- The Small Business Administration will assist in financing the modernization of equipment.
- The Agriculture Dept. will consider the desirability of eliminating adverse differentials in the cost of raw cotton.
- Congress will soon be asked to allow federal assistance for companies imperiled by imports.

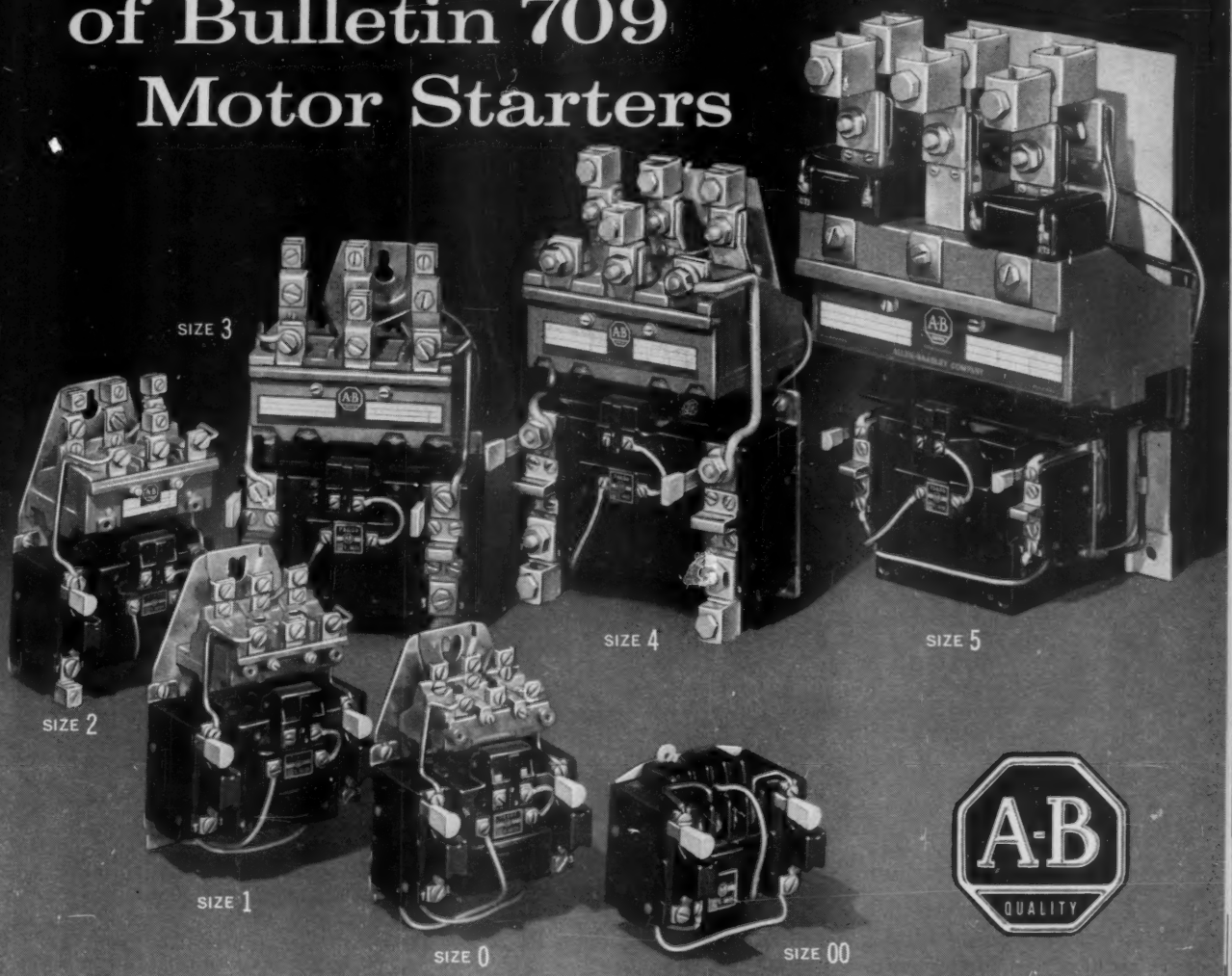
U. S. agency rejects identical bids on transmission line materials

The Bureau of Reclamation has rejected as identical the bids on 14 out of 16 procurement schedules for transmission line materials. Commissioner of Reclamation Floyd E. Dominy said that 19 companies—including major producers and wholesale supply houses—responded to two invitations for work worth about $1¼-million. The materials, including reinforced aluminum conductors and suspension-type insulators, were to be used on transmission lines being built in California and the five-state Colorado River storage project.

Dominy said that the bids compared favorably with engineering estimates but were rejected because prices on individual items were identical. He said new invitations would be issued soon, with an added clause requiring certification that the bids were arrived at independently, without collusion.

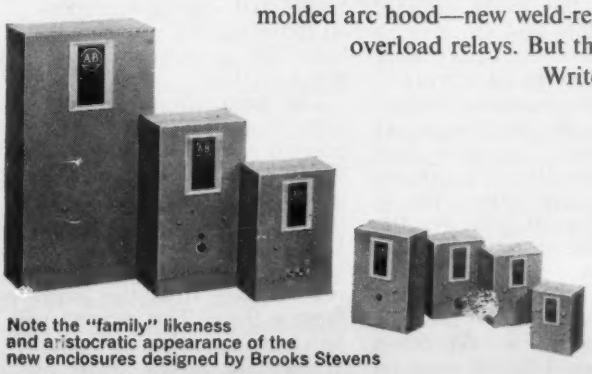
Interior Secy. Stewart L. Udall said he was amazed that identical bids continue to be offered. "If suppliers are merely going to quote from identical price lists," he said, "the whole concept of competitive bidding becomes a farce."

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Foiling Castro in Latin America

To offset failure of the Cuban invasion, Washington is mapping strategy to check Fidelism by aiding economic development in neighboring republics

The Cuban disaster is making the U. S. realize that its political and economic relationship with Latin America is perhaps our most difficult long-range problem in foreign affairs.

The consequences of the ill-fated venture are leaving their marks on most U. S. businessmen with interests in Latin America. They have been increasingly troubled by the spreading appeal of a Castro-style revolution, with its confiscations and state-controlled economy. Now they fear that Castro's display of strength in quashing the insurrection will make the influence of Fidelism even more potent.

Businessmen aren't panicking, by any means. Most say they are going ahead with current plans. But there probably will be a further cutback in the already declining rate of investment and expansion south of the border. Says an industry executive: "If I had $1-million to invest, I'd surely not put it into Latin America today."

Apprehension. Similarly, Washington is more apprehensive about our position in Latin America. Castro's victory gives the Communist movement a strong push. If the U. S. can't prevent the spread of this movement in Latin America, it will suffer severe economic, political, and military losses.

Major plans. U. S. strategy to prevent this is beginning to emerge, although the details are not firm. Short-run, the Administration is trying to rally Latin American governments to isolate Castro with economic and political sanctions (BW—Apr.29'61,p26). Washington is promoting a conference of foreign ministers of the American republics to move against Castro. But the U. S. won't go through with it unless positive results are assured.

Long-run, the Administration is counting on Pres. Kennedy's proposed Alliance for Progress, a 10-year program for economic and social development. Its objective is to eliminate the ills that foster political instability.

The two plans are going forward simultaneously, with a definite, if subtle, relationship. U. S. ambassadors are telling Latin American leaders that the U. S. considers the Alliance for Progress incompatible with the spread of Fidelism, implying that countries that do not resist Communist penetration will get less enthusiastic economic cooperation from Washington.

Two parts. Although Kennedy lists 10 points in his Alliance for Progress, it is an economic program that breaks down into major parts: (1) capital investment, both governmental and private, and (2) trade policy. The main impetus is to come from Latin Americans, who are called upon to undertake fiscal, legal, and agrarian reforms that will allow sound economic development projects to flourish. Kennedy has suggested an inter-American meeting of top governmental ministers, probably in July, to start the planning.

Businessmen's concern. In the past two weeks, Business Week reporters talked with businessmen across the country about the Latin American situation and their reaction to Kennedy's proposals. A measure of their concern for the future is the difficulty the reporters had in reaching some executives—they either were in Latin America, or they refused to comment for fear of making things worse.

Generally, businessmen welcome the government program and say that the Alliance is a start in the right direction. But many criticize its lack of specifics and are waiting until it is spelled out before they commit themselves to participation.

Some have doubts about the political aspects of the program, as do Kennedy's advisers. The odds may be only 50-50 that the U. S. can get support for its quarantine plan to curb Castro. Beyond that lies the deeply imbedded obstacle of Latin American inertia.

Bright spots. But, on the second count, Washington and the business community see some blue sky. Some Latin American politicians want reform and economic development, and may use the promise of U. S. aid to break down domestic resistance.

Some countries are more promising than others. Argentina gets high economic and political marks as an area for investment. Peru and Chile also are good bets. But nationalistic pressures in Mexico, Venezuela, and Brazil do not make them so attractive to the foreign investor.

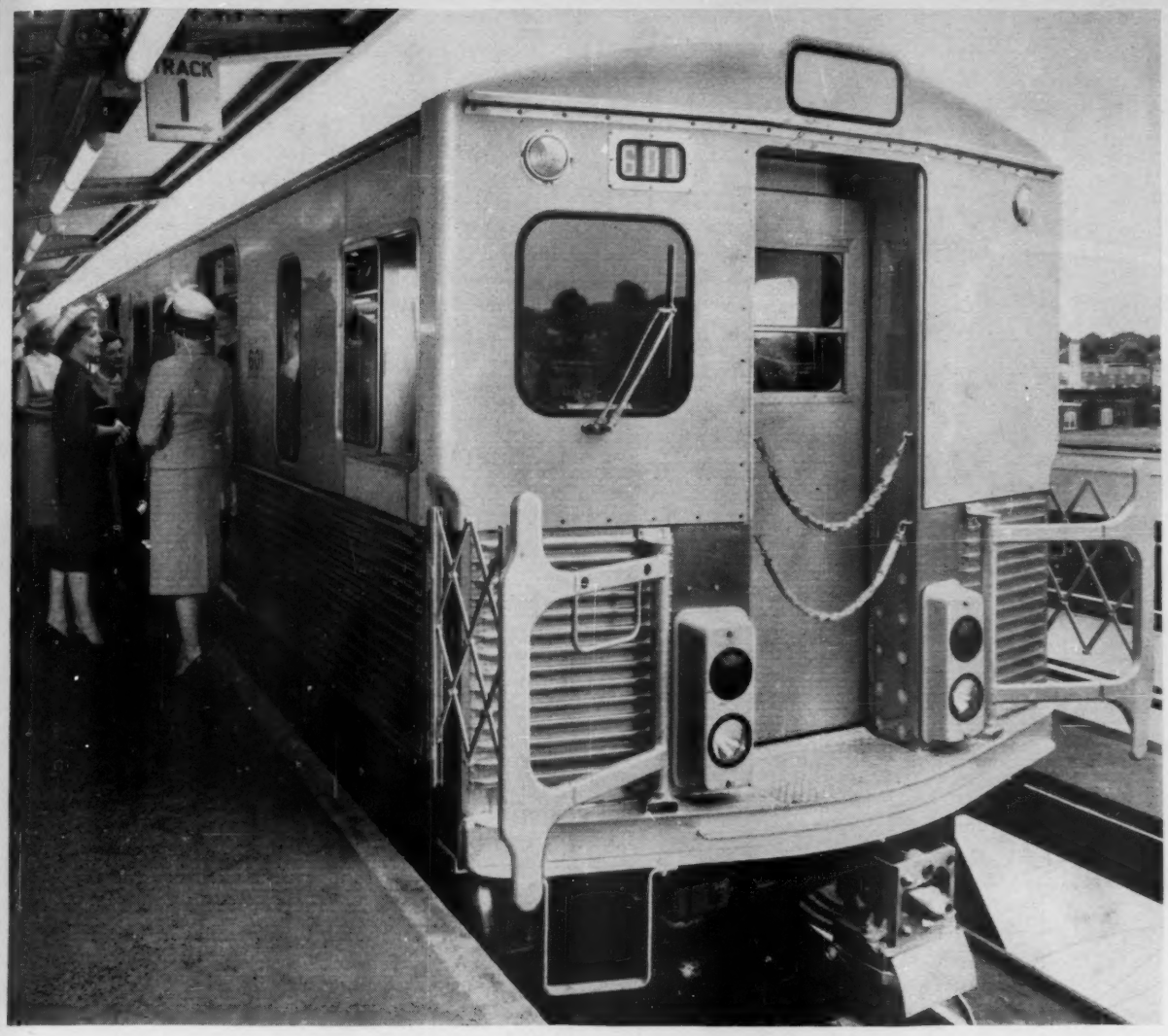
Just a beginning. So far, Kennedy's advisers haven't put a price tag on the capital investment needed for development in Latin America. They say that is impossible until the countries come up with solid plans for using it. But it's clear that the $500-million that the U. S. promised at Bogota and that Congress is appropriating is just a beginning. Most of it will be channeled through the Inter-American Development Bank (IADB).

Private investment will play a primary role in the capital flow to Latin America, but the mix between it and government funds is almost impossible to figure. Administration spokesmen estimate that it will be half and half, but even this will vary widely from country to country.

During the early years of the Alliance, government funds will be emphasized, with the hope that private investment will pick up as the economy improves. The government money, both through IADB and direct long-term, low-interest loans, will go into what economists call infrastructure projects—such as public works and education—upon which an industrialized economy rests and for which private capital usually is not available.

The Administration would like to put into each country as much capital as it can profitably absorb. Much depends upon what Congress appropriates and under what terms. In his revamped approach to foreign aid, Kennedy is asking authority to make long-term commitments and to borrow directly from the Treasury to finance them. This request will run into rough weather in Congress.

More incentives. Most businessmen find this approach to invest-



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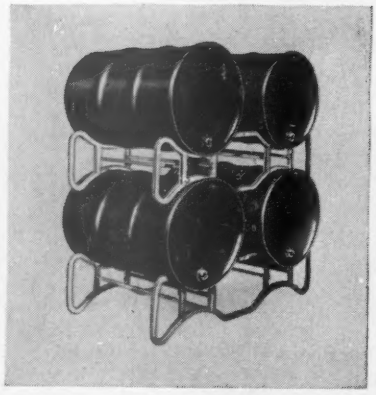
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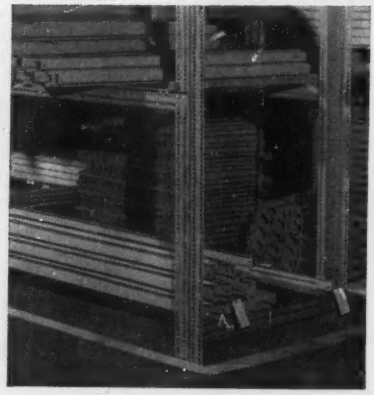
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ment realistic and reasonable—so long as the government stays out of ventures that they consider the proper realm of private enterprise.

To get industry to reverse the decline in investment in Latin America and to put in the capital that the Alliance for Progress requires, businessmen say that Washington should offer two basic incentives—investment guarantees and tax reductions.

Many businessmen want guarantees that protect the investor against loss by political action—expropriation and changes in regulations that radically alter the conditions under which a business operates. Others want insurance against inflation and devaluation, nonconvertibility of currency, and restrictions on profit remittances.

Guarantees for some new investments are already on the books. The International Cooperation Administration insures against expropriation, nonconvertibility, and war risks in underdeveloped countries, which include most of Latin America.

Objections. Businessmen complain that these guarantees don't cover existing investments, don't cover enough risks, take long to obtain, and are too expensive. They also point out that they are not available for countries with which the U. S. doesn't have a guarantee treaty.

Not all businessmen think such guarantees are a good thing. One says they lead to careless and sloppy management. Another thinks they invite expropriation because a foreign government figures that the only loser is the U. S. government, with its allegedly unlimited resources.

Administration spokesmen indicate that the guarantee program may be broadened. Commerce Secy. Luther H. Hodges this week said that a unilateral guarantee plan is being worked out.

Businessmen are less clear about what they want in tax incentives, although several point to the strength of such enticements. Some just want the present tax system, with its allowances for foreign earnings, left alone. Others would like a further reduction for investments in developing areas.

One executive notes, however, that the danger of tax incentives is that people "think they are forever." He advocates tax reductions until a business and the economy in which it operates are on their feet. Then the tax level should revert to the domestic rate.

Opinions vary. The Alliance for Progress involves a good bit of government planning. The American republics probably will set up an international mechanism that will pull together the economists and consultants with the necessary knowhow. These men will be farmed out to individual countries to help work out its plan for development.

Business Week reporters found that when it comes to opinions on such government economic planning, U. S. businessmen are all over the lot. An oil executive says he can do without "half-baked, amateurish, uneducated attempts at economic planning." He advocates allowing the market to allocate resources because private entrepreneurs can adapt to changing economic conditions faster than public planners can. He also wonders whether there are enough competent planners to do the job.

An executive of a big U. S. mining company takes the opposite pitch. He argues that economic planning by government is the only way to get progress in the Latin American economies. However, he makes a distinction between planning and participation. The government should set the targets and guide investment with various incentives, he says. But it should keep out of ventures that private business can run more efficiently.

A manufacturer takes a similar line but with a different emphasis. He sees no reason to object to some government participation in cases where private capital is not available or where national feelings about certain industries puts them into the public sector. He warns U. S. businessmen not to be doctrinaire because "We can't ram our system down their throats."

Commodity prices. In its proposals for trade policy, the Administration promises to consider individual commodity price stabilization, which is intended to help steady export earnings, and to support economic integration in movements such as the Latin American Free Trade Area.

Businessmen are almost unanimous in dismissing commodity price stabilization as impractical and unworkable. They point out their own experience with agriculture as an example of an uneconomic scheme. They also contend that it puts money into the hands of the producers rather than into the hands of workers and doesn't add to consumer purchasing power. Moreover, they say, such programs would increase rather than decrease the dependence of a Latin American country on one or two crops, and thus hamper industrial diversification.

In contrast, businessmen approve of U. S. support for LAFTA as an aid to industrial specialization and thus more rapid development. **End**

Washington outlook BW

May 6, 1961

Failure in Cuba stirs major changes

The failure of the Cuban invasion is working a powerful change on how Pres. Kennedy runs the White House, on Congress, and on both political parties.

The extent of the change, its far-reaching significance, is only now beginning to show itself. It has taken Washington two weeks to throw off an initial state of numb disappointment.

Kennedy's first reaction is a rush toward group decision-making.

He has met five times with the National Security Council in recent days; before Cuba he seldom used the council. **There's no more talk about one-man decisions.**

This week Kennedy reactivated a board to keep permanent watch over intelligence operations, with Dr. James R. Killian, Jr., a former Eisenhower adviser, in charge.

The country's ability to conduct counter-subversion operations—to back successful revolts against such Communists as Castro—will be strengthened. Kennedy seems almost certain to take such operations away from the Central Intelligence Agency, which bobbled the Cuban plans, and put them in the Pentagon.

Next phase: loss of votes in Congress

Kennedy's domestic programs are moving more easily through Congress now than before Cuba, but this is happenstance. **Key bills were ready to go and are simply being shoved along on schedule.**

Kennedy is almost certain to suffer losses in Congress later. He has been holding some votes on key issues by the sheer glamor and high hopes of his take-over. **The glamor is gone.**

Kennedy is hurt politically.

This doesn't show yet. But the pointed gibes, the vinegar-flavored humor of American politics, are beginning to be heard. A sample: suggested Democratic slogan for the 1962 election: "He kept us out of war—in Cuba." This sort of thing is new and abrasive to Kennedy.

The sympathetic reaction of Republican leaders, with former Pres. Eisenhower setting the tone, is only a prelude. While GOP spokesmen are largely silent, newspaper columnists and magazine pundits—many of them Kennedy's warm admirers—are reporting the general disillusionment with Kennedy's policies since the Cuban affair.

GOP attacks on Kennedy over Cuba are bound to come eventually.

Meantime there is a quiet rise of GOP hopes for capturing Congressional seats next year and the White House in 1964.

Burns is back as GOP thinker

The intellectual godfather of the Republican section of this week's Joint Economic Committee report on the state of the economy (page 32) is Arthur F. Burns, chairman of former Pres. Eisenhower's Council of Economic Advisers.

Key parts of the GOP section are almost word-for-word from a significant speech Burns gave last month before business economists at a meeting in Chicago (page 112). Burns is now president of the National Bureau of Economic Research in New York.

In his speech, Burns criticizes the theory—held by Pres. Kennedy and the present Council of Economic Advisers—that the country is trapped in a period of stagnation. **Burns argues that full employment is not remote** as the present council argues, but may well be reached by mid-1962 as a result of recovery forces now at work.

The debate between Burns and Kennedy's economic council is top read-

ing for anyone wanting to clear up the essential differences between Republican and Democratic economic thinking. The Council of Economic Advisers, Washington, 25, will supply a copy of its formal presentation to Congress. The Burns rebuttal appears in full in the Congressional Record for April 27, page A2885.

Rep. Thomas B. Curtis (R-Mo.) is the chief author of the GOP section of this week's economic report to Congress. In addition to Burns, Curtis has been in contact with a number of former top economists of the Eisenhower Administration, including Paul McCracken of the University of Michigan and W. Allen Wallis of the University of Chicago.

Pentagon seeks smoother flow of arms orders

Far-reaching changes in military research and weapons production will stem from a new budget policy now being put into effect in the Pentagon.

Under the new plan, budget-making will be divided into two periods.

From now to Oct. 1 the stress will be on deciding what weapons systems can best perform the basic military missions.

For strategic missions, for example, the Air Force Minuteman missile will be pitted against the Navy's Polaris. The Army Pershing missile will be compared with the Air Force's advanced fighter-bomber—two weapons performing about the same task.

These decisions will be reached not just for the next fiscal year but for the longer run, perhaps five years in the future. It should result in a smoother flow of orders and more stable production schedules, with less chance of sudden cancellations.

The second phase of budget-making will start Nov. 1. It will consist of the relatively routine task of translating the broad decisions into dollar needs for the next fiscal year.

The system will provide sharper competition between weapons systems early in their development, and quicker decisions on which system holds the most promise.

Budget Director David E. Bell is urging other departments to adopt the five-year approach to planning expenditures. It may emerge as a major change in fiscal planning for the whole government.

Fund-raising flub puts oil on the hot seat

A move to get oil lobbyists to buy tickets to a Democratic fund-raising dinner, to be held later this month, is kicking back mostly against Interior Secy. Stewart L. Udall. But the oil industry will also be hurt by the affair at a crucial time—just as the future of natural gas price controls heads for a showdown in Congress.

Udall denies he had any connection with a letter sent by Jack K. Evans, Shell Oil lobbyist, asking other lobbyists to buy tickets to the $100-a-plate dinner. But he admits he mentioned the dinner in a conversation with Evans, a long-time personal friend.

Republicans are attacking Udall for seeking funds from an industry that comes under the supervision of the Interior Dept., and he may wind up with a White House rebuke as well.

Labor ponders rumor that Meany may quit

Labor circles are passing along a rumor that George Meany will quit as president of the AFL-CIO after its meeting in December.

Meany, not in the best of health, will be 67. He has been plagued in recent weeks by a flare-up of the old rivalry between AFL craft unions and the industrial unions under Walter P. Reuther.

If Meany quits, neither side will find it easy to name a successor. Meany has the power to keep Reuther out of the presidency. Meany is said to favor James A. Suffridge, head of the Retail Clerks union.

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Which way is atom power headed?

AEC's first serious attempt to use plutonium as reactor fuel promises to help atom out of economic bind

Fatal Arco blast raises safety question, but evidence of local mismanagement indicates no general danger

Equipment builders, facing lean year, look to technical gains to cut costs, bring better days by 1965

This is a crucial year for the atomic power industry—still so far from realizing the expansive possibilities originally envisioned for it:

- The U. S. government is making its first serious attempt to use plutonium as a reactor fuel.
- The first fatal nuclear explosion in an atomic plant occurred early this year.
- Business is bad for atomic equipment suppliers and it is not likely to get better quickly.

These are not isolated developments, obviously, but inevitably related in their impact on the industry's future. Their impact, too, will be affected by other basic developments—by new, cost-reducing technical wrinkles being built into atomic plants now under construction, for example.

But each will play an important part in speeding up, or delaying, the atomic power industry's progress toward competitive power—along a path of development on which the year 1965 seems to be showing up with hopeful frequency as a likely marker of important milestones.

Doldrums. The nuclear power industry has had few lush years since it came into being in 1954, when Congress amended the law to permit companies to build and own nuclear facilities.

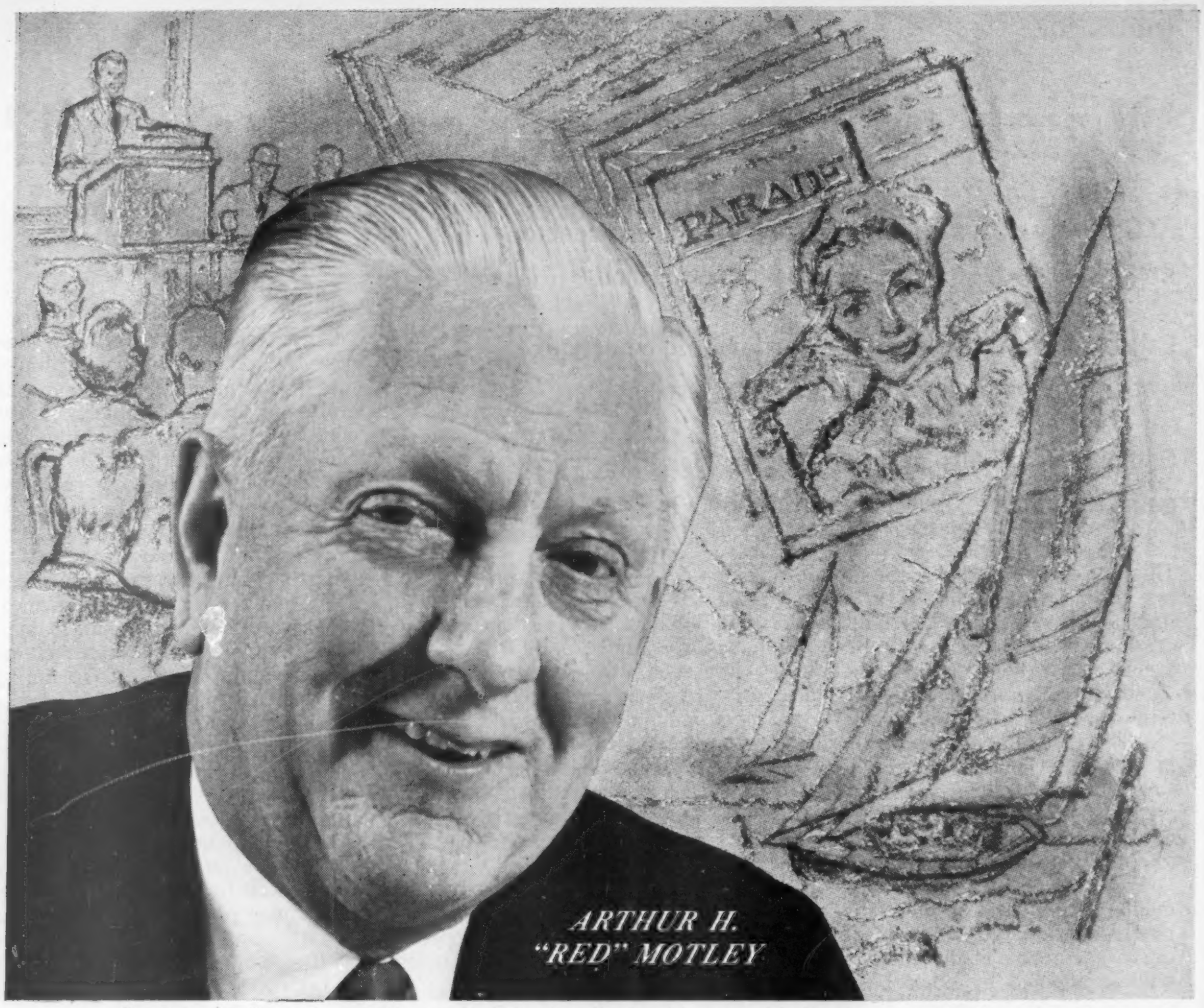
Most companies producing conventional power equipment plunged into the atomic field, as did many aircraft companies and some brand-new companies. Business was fine until some serious roadblocks developed:

- Costs of building nuclear power plants turned out to be far higher than estimated—almost twice as great as conventional plants. Utilities began shying away, except for a few.
- Atomic Energy Commission aid to private companies, in loans of fuel, contributions to research and development costs, and so on, got the industry into the middle of the old private vs. public power feud.
- Discovery of oil near at hand in the Sahara caused Western European countries to cut back their atomic programs.
- Development of a wide variety of reactors led to building of tiny pilot plants for many types, with few companies plugging for a single reactor type, and much AEC aid going to the many small pilot plants.

Yet, in spite of all this, the in-

Plutonium's handling costs are hurdle as atom fuel. It's toxic, will burn in moist air, so these 'glove boxes' are used.





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dustry has forged ahead and is probably a lot closer to cheap nuclear power than it might be under the circumstances. It will do little business from now on, however, until it builds a plant that turns out cheap power.

I. Plutonium's promise

From that basic standpoint of atomic economics, the most important 1961 development is the effort of the Hanford Laboratories of the Atomic Energy Commission to find ways to use plutonium as a reactor fuel. There is very much at stake in the work at isolated Hanford, a few miles from bleak Richland, Wash., where most of Hanford's employees live.

In fact, Hanford, which is operated for AEC by General Electric Co., may get the commission off a very bad hook.

Most reactors operating today produce plutonium in addition to their main job of serving as research tools or producing electric power. The AEC has agreed to buy this plutonium at $30 a gram. According to one estimate, this will cost AEC more than $7-million this year, and about $300-million a year by 1971.

Thus it behooves the commission to find an economic use for plutonium. Even if it needed the stuff for weapons—which it probably does not, because it already has large plutonium producing facilities—this would be very expensive material. The alternative is to find nonmilitary uses.

Three fuels. There are three fuels for atomic reactors. Only one, the uranium isotope U-235, occurs in nature (though it must be separated from U-238 if it is to be used by itself as a fuel). The others, plutonium and U-233, are manmade.

Greater use of plutonium as a reactor fuel has long been under serious consideration. But, unfortunately for AEC, it has so much U-235 that no one has taken much interest in either plutonium or U-233 as fuels.

Reactors use up only 2% to 3% of the U-235 before it becomes so fouled up with fission products that it must be replaced—otherwise the fission products absorb so many neutrons that they shut down the fission process.

Markets. If, as is expected, Hanford finds inexpensive ways to fabricate plutonium fuel, to use it efficiently in a reactor, and to remove the fission products economically, both domestic and foreign markets for plutonium should open up. General Electric, for one, is confident



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that plutonium is the best possible fuel for certain types of reactors.

Because plutonium produces more neutrons than U-235, it is ideal for reactors that, because of design or structural materials, require many neutrons. It also appears to be the only possible fuel for so-called breeder reactors—those that produce as much fuel as they consume. Such reactors contain a fuel and U-238; the idea is to produce from the U-238 as much plutonium as the amount of fuel burned in the reactor.

Foreign interest. Only three countries—the U. S., Britain, and the Soviet Union—have the expensive plants needed to separate U-235 from U-238. So other countries have naturally been reluctant to buy reactors using the U-235 for fuel, because they would be dependent on those three countries for their fuel.

But if cheap ways are found for making plutonium fuel elements, using them in a reactor, and removing the fission products, this dependence is eliminated.

Confident. Herbert M. Parker, the British-born physicist who heads the plutonium project as manager of Hanford Laboratories, is confident he and his colleagues will find inexpensive ways of using plutonium.

Besides the plutonium recycle test reactor (PRTR), they have full-scale chemical and metallurgical labs to produce and reprocess plutonium fuel.

"Already we have a number of ideas on how to cut the costs of fabricating fuel rods and reprocessing them," Parker says. "By 1965 we will have enough data on plutonium fuel to enable General Electric to make a business decision."

He won't say so, but Parker is confident GE will decide to produce plutonium-fueled reactors for sale.

Fantastic precautions. There's no question that plutonium will work in a reactor. Several reactors have used it. The big problem is getting down the cost of handling the stuff. Plutonium has several nasty characteristics that make it necessary to take fantastic precautions to protect the people working on it.

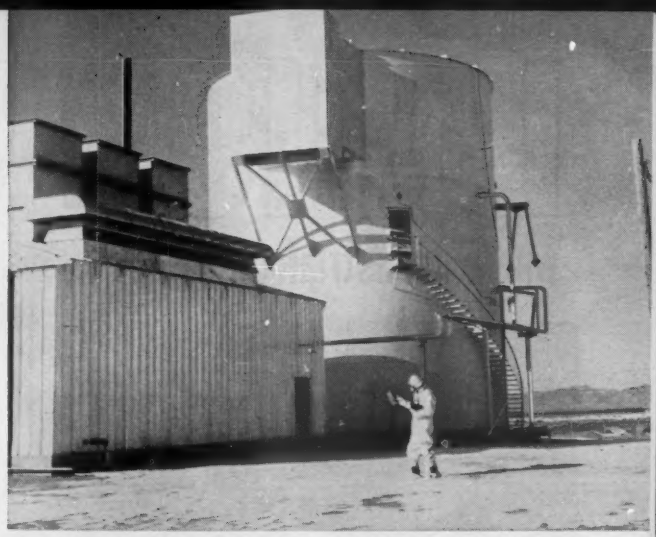
To begin with, it's toxic. A tiny particle can be fatal if inhaled or swallowed. Then, it ignites in moist atmosphere. So it's handled in glove boxes (picture, page 53) or by remotely controlled instruments. The interiors of the glove boxes are kept at lower air pressures than the room outside. That way, material is more likely to seep into the glove boxes than to leak out.

High morale. Despite the dangers, and the difficulties of life in the bleak



Reactor wrecked inside

Explosion in January that blew top off AEC reactor at Arco, Idaho, killing three inside building, roused fear of new public hostility to atom power plants near big cities.



Outside uncontaminated

Technician's check outside building showed virtually all radioactivity was held inside, with no danger nearby, even though it was not so well shielded as atom power plants.

locale, morale at Hanford is high. The men under Parker take great pride in Hanford's reputation as a first-class operation, and in its role in the plutonium project.

II. Safety first

But what the men at Hanford can do in bringing plutonium into more general and cheaper use and helping atom power over its cost roadblock will be of little avail if a fatal atomic explosion in a nuclear power plant could kill off the whole industry before it got really started.

That's why the fatal blast early this year at the AEC's Atomic Reactor Testing Station at Arco, Idaho, caused such shudders in the industry. But now that the accident has been studied and the facts sifted out, the best evidence indicates that the Arco blast presents little real danger for the future of the atomic power industry.

The blast most likely was due to mismanagement which would not be possible under the stringent controls applied by AEC to private power plants. And though the building housing the Arco reactor was not the kind of heavy pressure dome that covers civilian power reactors, virtually all the radioactive material released by the explosion was contained within the building and prevented from escaping. A highway one-quarter of a mile away was opened to traffic the next morning.

Reactor components. Basically, a reactor is several clusters of fuel rods in a large container. The fuel elements generally are made up of a number of rods of uranium or plutonium clad in a protective metal. Water, or some other coolant, runs over these and takes the heat out. Control rods, made of neutron-absorbing materials, extend vertically alongside the fuel rods.

The reactor core also contains a material to slow down the neutrons so they will have more chance of colliding and fissioning. This is called a moderator. The walls are covered by a material called a reflector, from which neutrons bounce back into the center of the core instead of escaping outside the reactor.

Gross mismanagement. It is difficult to disagree with industry people who attribute the fatal Arco accident to gross mismanagement. The reactor, designed as a prototype of small atomic plants to be used at remote military bases, was not in good condition.

Boron, which absorbs neutrons, had been placed in strips on the fuel rods. This was to add to safety by absorbing neutrons from the highly enriched uranium fuel, thus reducing the number of neutrons available to carry on the fission process. But the boron strips warped out from the fuel and rubbed against the control rods. This made it difficult to move the control rods. And when the control rods were moved, they scraped boron off the fuel rods.

According to one AEC report, the control rods had stuck 40 times in the last two months of the reactor's operation. This is something like driving an auto with no brakes—to control a reactor, the control rods must move rapidly and freely. Why the reactor was kept in operation under these circumstances is something of a mystery.

What happened. Just what caused the explosion may never be positively determined. At the time, the three crewmen were on top of the reactor connecting the control rods with their automatic drive mechanisms. This involved raising the control rods manually. Most observers believe the crew may have moved one rod too far out of the reactor. Such a mistake might have let the reactor run away and explode.

Apparently two crewmen were killed instantly. The third was alive when taken from the building, but died shortly after. The victims were Army and Navy enlisted men, all trained in military specialist schools. They had connected the control rods to the drive mechanisms several times previously.

When rescue teams arrived, the level of radioactivity inside the building was so high the rescuers, working in relays, could remain inside only a few seconds. Yet virtually all the radioactive material was held inside the steel cylinder of the building, averaging only about 1¼ in. thick.

No repercussions. The industry had long predicted that a fatal reactor accident was inevitable—because reactors are operated by people and people make mistakes—but had dreaded the first such accident. Industry men feared public reaction to such an accident might mean the immediate death of their industry.

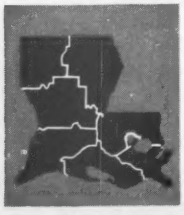
But there was no such reaction to Arco. The story made newspaper front pages, by and large, only in the vicinity. People in nearby towns

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remained calm. "A bad dust storm causes a lot more talk," commented a resident of Idaho Falls.

As far as is known, the Idaho accident was actually the first of its kind. Rumors of a major accident in Russia have never been confirmed. There have been accidents in both British and U. S. plants, but they killed no one.

Little chance. Chances of a similar incident in existing atomic power plants are virtually nil. Highly skilled technical people are on hand at all times to supervise operators. Equipment is regularly checked by both plant operators and AEC inspectors.

Anything as serious as a fuel rod failure would bring immediate shutdown of the plant. It could not be restarted until AEC safety experts were satisfied that necessary adjustments had been made.

The AEC did an excellent job of reporting details of the incident—in sharp contrast to its efforts a few years ago to conceal the fact that one of its reactors had gone out of control and melted down its fuel.

But AEC still has not reported who made the decision to continue operating the reactor despite the trouble with the control rods. The atomic power industry is anxious for the public to understand that a nongovernment plant would not be permitted to operate in such conditions.

Safety check. Though there's little danger of such an explosion in an atomic power plant, the industry may feel some effects from the Arco blast. AEC swiftly made a poll of all reactors to check on safety procedures. This proved embarrassing when all satisfied its rigid safety rules except three of AEC's own reactors at Brookhaven National Laboratory, which were shut down until they complied.

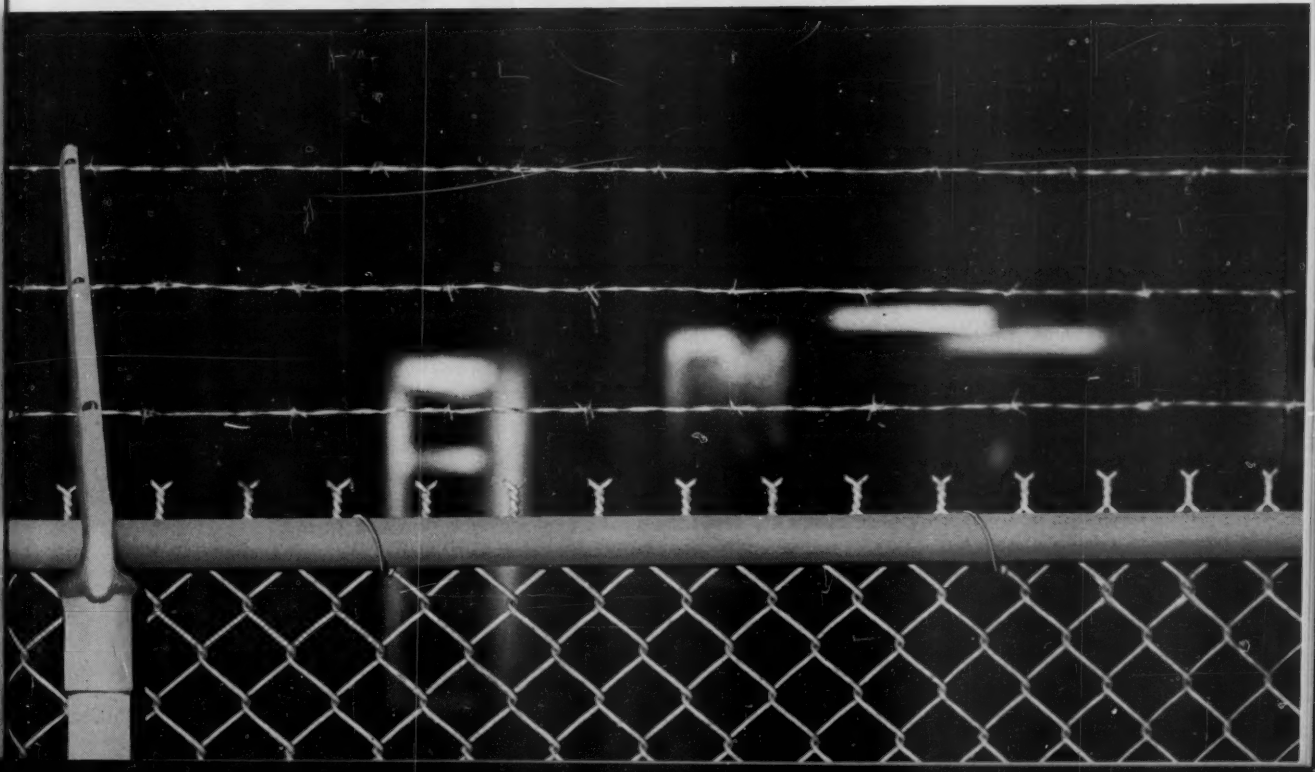
Even so, AEC's safety experts remained in a state of jitters. They refused to permit an exhibit of a low-power reactor at the coming New York World's Fair, though similar reactors have been exhibited in New York. They also ruled that sites selected for reactors in New York and California were unsuitable. The industry expects to get unfavorable AEC reaction to any reactor proposal near a population center.

Fuel for complaints. Before the accident, a group of labor unions had protested the licensing of the 100,000-kw. Enrico Fermi plant now nearing completion at Lagoona Beach, Mich., as dangerously near to population centers at Detroit and Toledo. The unions made hay of the Arco blast in their campaign.

This case is now before the U. S.

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TURN THE PAGE



continued from preceding page

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Fig. 1: Galv-After process, developed by Cyclone, assures uniform zinc coating over Cyclone Fence fabric. No uncoated ends or bends to invite corrosion.

fence uniformly galvanized?

Some chain link fence is galvanized before weaving. Twisting, turning and bending by weaving machines may break the seal of zinc; leave uncoated ends to invite corrosion.

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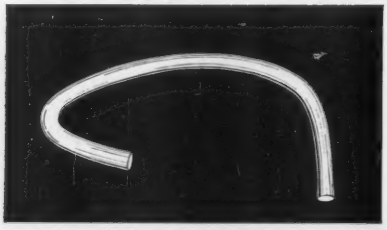


Fig. 2: Prefabricated clip—unique with Cyclone—makes a cleaner, tighter job, gets the fence up faster.

every part engineered to its job?

An industrial fence can cost a sizable sum of money. You have a right to expect your investment to pay off in 20, 30 or more years of solid property protection with relatively little maintenance. This means you want a fence that's engineered to the job, not just a haphazard collection of pieces and parts.

Every part that goes into a USS Cyclone Fence is completely pre-engineered. The design, the weight, the mechanics are exactly right. Take the 4" piece of wire we use to fasten fence fabric to line posts. It's about the smallest thing that goes into a Cyclone fence, yet we've gone to the trouble of pre-shaping it into a clip. The clip makes a cleaner, tighter job and helps us get your fence up faster. This can save you money.

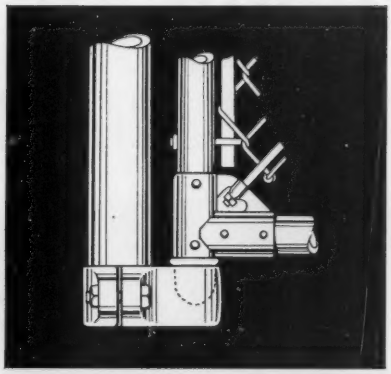


Fig. 3: Sleeve construction of USS Cyclone gate makes repairs easy. Remove a few rivets, insert a new part and you have a new gate.

gates easily repairable?

Most industrial fence gates are welded. Smack one with a truck and you have to burn off the damaged section and weld on a new one. It's a major rebuilding job.

USS Cyclone Gates are made with sleeve construction. Remove a few rivets, insert a new part and you have a new gate. Cyclone gates are prefabricated. There's no cut and fit in the field. Saves us time, saves you money. Cyclone gates have adjustable truss rods. Most welded gates don't. The truss rods help true up a gate and keep it true. We say our gates never sag. They don't.

are the line posts H-Posts?

The job of the line posts: to give you strength where you need it most—across the line of fence. If they're weaklings you may be in for trouble; someday they could be called on to stop the roll of a truck or halt the veer of a car. The stronger they are, the more protection your people and property will have.

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Fig. 4: H-Post—developed by Cyclone—is designed like a beam for extra strength. Flange and web make excellent bond with concrete. No hidden surfaces to corrode.



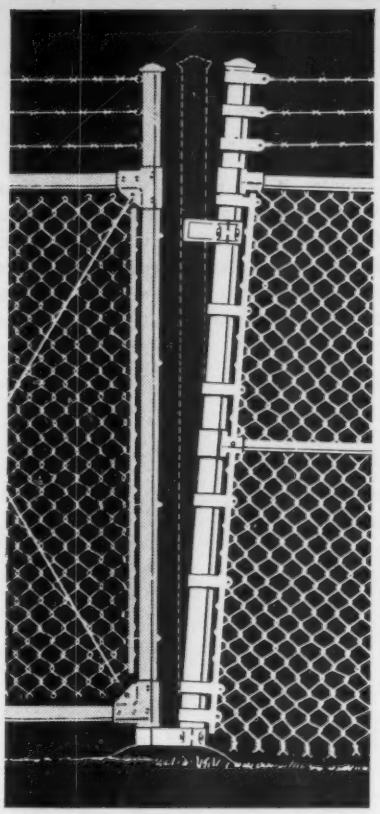


Fig. 5: Expert Cyclone crewmen set gate post a bubble off plumb. Heavy gate pulls post into line, gate swings true.

pickup crews... or fence men?

Your fence will look better and last longer if it's put up by men who know fence. Find out what kind of crew will put in your fence before you buy.

Most of our USS Cyclone crewmen have been with us for years. They know our specifications so well they can erect a fence from the "take off" on the back of our estimating sheets. There's a knack to putting in good fence. Example: the strongest post will give a little when you hang a heavy industrial gate on it. To compensate for this lean, an expert Cyclone crewman will set the gate post a bubble off plumb. When the gate is hung, its weight will pull the post into line. These are the little tricks of the trade that make the difference between a good job and an average job.

how's the price?

Price alone is not the answer when you're buying fence. You'd be amazed what can be done by opportunists to cheapen the **quality** of a fence along with the price, without your knowing it. You may get lighter gage wire than you specify. Cheaper fittings. Lightweight tubing instead of heavyweight pipe. A cheaper grade of zinc coating. Shorter posts than specified (the company that's willing to do it can save a foot or two of metal by not sinking the posts in concrete to an adequate depth).

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recognize the brand?

It's possible to go into the business of selling and erecting fence with little more than a desk, a telephone and the price of an ad. You can get out just as fast as you got in. That's why it's important to know the brand and know you can depend on it before you buy.

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continued on next page

continued from preceding page

can you count on service?

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Supreme Court on an injunction action brought by the unions when AEC issued the license. The court is expected to rule in the case soon.

III. Industry's last dip?

Whatever the impact of the Arco explosion, there is not much new business in the offing for atomic equipment suppliers.

Three large atomic power plants have been completed—a 60,000-kw. plant at Shippingport, Pa., and a 110,000-kw. plant at Rowe, Mass., both built by Westinghouse Electric Corp.; and the 180,000-kw. Dresden plant near Chicago, built by GE. Besides the Enrico Fermi plant near Detroit, Consolidated Edison Co.'s 250,000-kw. plant at Indian Point, N. Y., is also nearing completion.

GE is building 50,000-kw. facilities for utilities in California and Michigan. Atomics International Div. of North American Aviation, Inc., is completing a 75,000-kw. plant for a public utility district in Nebraska. Allis-Chalmers Mfg. Co. is building a 62,000-kw. plant for a South Dakota utility. Beyond this, Southern California Edison Co. is negotiating with Westinghouse on a very large plant, but is having trouble finding a location.

New wrinkles. But the plants being built will employ a number of new wrinkles that may cut operating costs. Perhaps the most important are nuclear superheaters for some plants, to take steam from one reactor and superheat it by putting it through another reactor or a separate chamber of the same reactor. This will permit delivery of very-high-temperature steam to a turbine—and if successful, would cut both operating and construction costs.

Better days. Dr. Lyman R. Fink, general manager of GE's Atomic Power Equipment Dept., hopes this means atomic power is in the last of its many dips. He sees better days no more than three years away. Then the industry will have plants in operation, operating experience, reliable cost figures.

By 1965, he estimates, the atomic power industry should be getting 10% of the orders for thermal power plants—which would mean three to five orders for new atomic plants that year.

Dr. Chauncey Starr, president of Atomics International, chimes in pretty much with this. The industry now can build 300,000-kw. plants for somewhere between $200 and $250 per kw., he says, and in six years this will be down to the price range of conventional generating plants—$150 to $200 per kilowatt. **End**

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The 20 top retailers

		Sales [thousands]			Earnings [thousands]			Profit margin	
		1959	1960	Percent change	1959	1960	Percent change	1959	1960
1	Atlantic & Pacific Tea..	$5,048,000	$5,250,000*	+4.0%	$53,008	$58,000*	+ 9.4%	1.1%	1.1%
2	Sears, Roebuck	4,036,153	4,134,319	+2.4	198,671	192,186	– 3.3	4.9	4.6
3	Safeway Stores	2,383,011	2,468,973	+3.6	35,701	34,818	– 2.5	1.5	1.4
4	Kroger Co.	1,911,902†	1,870,290†	–2.2	25,517	23,478	– 8.0	1.3	1.3
5	J. C. Penney Co.	1,437,489	1,468,918	+2.2	51,524	44,994	–12.7	3.6	3.1
6	Montgomery Ward	1,223,000†	1,248,994†	+2.1	30,657	15,054	–50.9	2.5	1.2
7	F. W. Woolworth	986,214	1,035,293	+5.0	48,332	46,928	– 2.9	4.9	4.5
8	American Stores	889,452	1,011,489	+13.7	9,608	11,100*	+15.5	1.08	1.1
9	National Tea	829,518	855,841	+3.2	9,025	8,662	– 4.0	1.1	1.1
10	Federated Dept. Stores.	759,919	785,358	+3.4	33,883	32,968	– 2.7	4.5	4.2
11	Food Fair Stores	771,000	771,000	—	11,395	10,360*	– 9.1	1.5	1.3
12	Winn-Dixie	698,190a	739,659*a	+5.9	14,933a	15,903*a	+ 6.5	2.1	2.2
13	May Dept. Stores	683,964	684,839	+0.1	23,775	22,643	– 4.8	3.5	3.3
14	Allied Stores	679,488	680,492	+0.1	14,637	10,888	–25.6	2.2	1.6
15	Grand Union	603,468	604,274	+0.1	7,354b	7,091	– 3.6	1.2	1.2
16	First National Stores ..	525,351	537,000*	+2.2	8,223	7,367*	–10.4	1.6	1.4
17	R. H. Macy	489,657a	517,613a	+5.7	8,522a	8,901a	+ 4.4	1.7	1.7
18	W. T. Grant	479,997	512,687	+6.8	12,258	9,198	–25.0	2.6	1.8
19	Jewel Tea	490,978	509,145	+3.7	9,381	9,693	+ 3.3	1.9	1.9
20	Colonial Stores	450,749	445,434	–1.2	3,269	2,365	–27.7	0.7	0.5

*—Business Week estimate
a—calendar year basis
b—excluding $1.6-million extraordinary gain

†—52 weeks 1960; 53 weeks 1959

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MARKETING

Cost is high to keep your ranking

No newcomers made the list of the top 20 retailers. In the only shift, Federated Department Stores moved into 10th position, with Food Fair dropping down to 11th

It cost the nation's top 20 retail store operators a good deal more money to get a little extra sales volume last year. The tabulation above tells the story.

With two exceptions, the big chains chalked up sales gains despite the recession. But only five could translate that added volume into additional profit.

The Great Atlantic & Pacific Tea Co., Inc., biggest of all retailers, overcame the effects of a 1959 strike in the rich Eastern metropolitan areas to boost its volume to an estimated $5¼-billion, with a handsome 9.4% gain in profits. In contrast, all but one of the other companies with sales over $1-billion were unable to match 1959 earnings. The exception was American Stores Co., Philadelphia-based supermarket chain, which pro-rated over the fiscal year its acquisition of Alpha Beta Good Markets, Inc.

The general decline in earnings can be attributed directly to the stiff competition during the recession. Montgomery Ward & Co., for instance, says its earnings dropped a steep 50% because it has more older stores "which are more susceptible to competitive conditions."

Few changes. Actually, beyond the tough problem of battling a recession, you can see in the figures a maturing of the postwar retail boom. As the big operators entered the 1960s, sales gains were modest and no big newcomers made the list of the top 20. In the only shift, Food Fair Stores, Inc., barely managed to hold its own in sales and lost its 10th position in the rankings to Federated Department Stores, Inc.

However, two more companies—American Stores and F. W. Woolworth Co.—achieved sales volumes in excess of $1-billion.

New trends. Unquestionably there will be major changes during the 1960s. Some already are emerging. For instance, many top retailers are maneuvering to take part in the rapid growth of discount merchandising (BW—Apr.29'61,p112) in what could well be the start of a retail revolution to match that of the supermarkets in food distribution.

Today, 11 of the top 20 retailers are supermarket chains, compared with seven in 1950.

Comeback? Now it is likely that general merchandise stores may have their innings as they move into discount, low-margin operations similar to food chains. In fact, a combination of food and general merchandise operations is developing, as one-stop shopping under one roof spreads.

One thing looks certain: Before the next decade is over, any company that aspires to the top 20 will have to make $1-billion (or close to it) its sales goal. In 1960, eight of the top 20 had sales over $1-billion against only four in 1950. **End**

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Rossford Ordnance Depot is one of the surplus military bases scheduled to be closed. A Washington task force and Toledo businessmen and city officials explore the possibilities of using the site and buildings for industrial development.

REGIONS

Pentagon eases community pain

Washington task forces move in to help absorb economic shock to communities when domestic military bases close. Rossford Ordnance Depot near Toledo is the pilot project

A new Pentagon task force arrived at Rossford Ordnance Depot—just outside Toledo—last week on the first leg of its mission to help soften the economic impact on communities when the Defense Dept. starts closing surplus military bases and activities.

The 14-man group was headed by Courtney Johnson, former Assistant Secretary of the Army, and is part of the Installations & Relocation Planning Committee set up by Defense Secy. Robert McNamara to map steps to be followed in phasing out the installations.

As part of the over-all procedure, these teams will be sent into communities affected by the closings. Toledo's Rossford Depot, one of the largest involved in the present economy drive, is the first one to come under task force direction. There is no elaborate program that will solve all problems posed by the depot's scheduled closing. The trip to Toledo was to give information and to get information about the big Rossford base.

Toledo's loss. Toledo is typical of the communities that were caught by surprise when McNamara announced Mar. 31 that 52 U. S. and 21 overseas bases will be closed over a three-year period. The move reflects certain changes in the country's military structure, as well as economy.

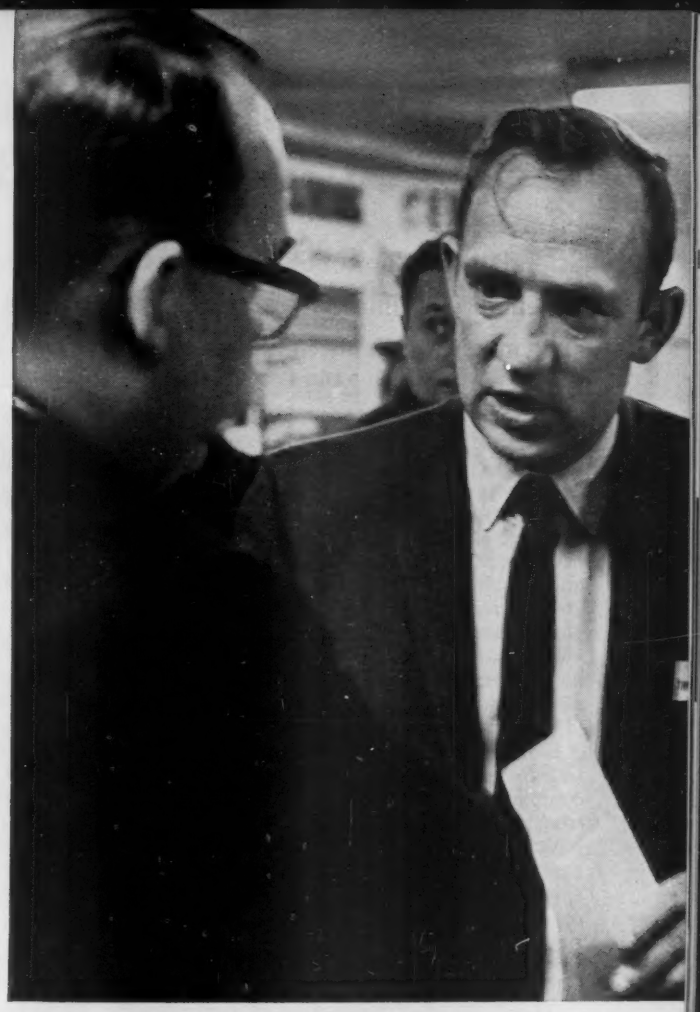
The Rossford Ordnance Depot



Bus tour around the 882-acre post gives Pentagon men an idea of the layout, size, and facilities of buildings.



Lunch brings ideas from (right to left) former Asst. Secy. of the Army Johnson, Col. Harry Marker, Rep. Thomas Ashley.



Briefing: Rep. Ashley (facing) explains to Howard Fox of Toledo Edison Co. how the depot will be phased out.

emerged from World War II as the largest automotive parts depot in the world. It has an annual payroll of $12-million. In addition, $500,000 is spent in Toledo every year by students attending training classes at the depot's military packaging training center.

Assets. To offset these and other losses, Toledo wants to put the property to good use. It is a superb industrial site—its 882 acres are flat as a pancake, and include 22 miles of railroad, 15 miles of improved road, 2.7-million sq. ft. of warehousing space, a modern 240,000-sq.-ft. industrial plant and a 90,000-sq.-ft. office building, and a complex of smaller buildings.

"What we have in mind, says Rep. Thomas Ashley (D-Ohio), who accompanied the team, "is prompt and efficient utilization of this depot by private enterprise."

Washington, too, apparently is anxious to make its pilot project at Rossford a success. Toledoans were informed immediately that the depot property may be made available as its facilities are vacated by the military. This means that a portion of the 882 acres could be put into private hands for, say, industrial development purposes before the Army is out completely. Or it could be made available to local government units —city, county—if their charters permit such acquisitions for industrial development or other purposes. Also, it could be sold to private industrial groups. Finally, it could be disposed of as a parcel or in part to any private enterprise.

While these problems are being worked out, other government departments involved will study others ranging from loans for small businesses that want to take over part of the base to employment help from the Labor Dept. or Civil Service Commission.

Job prospects. Phasing out the Rossford facility doesn't mean that the 1,650 civilian employees will be tossed onto the labor market. For one thing, 723 are employed in military projects at Rossford and will be transferred as a unit to other bases. And the Pentagon has announced that every employee whose job is moved out of Rossford will be offered another job, although maybe not in Toledo and perhaps one that will not be so appealing.

Fast reaction. The initial tendency in Toledo to try to pressure the Defense Dept. into changing its Rossford plans has been replaced by a determination to make the best of the event and see what can be done to replace the depot's activities. The day following the visit of the task force, Toledo's Mayor Michael J. Damas called for creation of a local task force to serve as liaison with the government departments working on the depot disposal. Also, the mayor announced that work will begin immediately on a master plan for the depot, starting with an engineering study of the 882-acre site. **End**

Heat of decay makes electricity

Scientists develop another new way to convert the energy of heat directly into electricity. Commercial uses are a long way off, but military applications may be near.

Direct energy converters have been fascinating researchers in recent years. Fuel cells were the first of the new crop of devices that convert heat energy directly into electrical energy; then in rapid succession came thermoelectric, thermionic, and magnetohydrodynamic generator systems (BW—Apr.9'60,p155). Now, scientists are excited over the most bizarre idea of all: a so-called biochemical fuel cell that produces electricity from the decomposition of organic matter.

Direct converters have many desirable characteristics: They are compact, highly efficient, relatively free from servicing problems. They have been hailed as an ideal solution for supplying electric power in space ships, where weight is at a premium; in submarines, even for motive power (BW—Apr.15'61,p38), and in remote or cramped locations elsewhere on land, sea, or in air.

There is even hope that direct converters can augment the electric power taken from the heat in a nuclear reactor, helping make power from this source competitive with power from conventional steam plants.

Two approaches. The biochemical fuel cell moved out of the realm of theory a couple of weeks ago when it became known that two laboratories, following two different approaches, are already producing electricity from such cells.

Both cells are mere working models, laboratory prototypes. One, at Joseph Kaye & Co. in Cambridge, Mass., has produced up to half a volt; it has been turning out electricity for more than three months without any sign of weakening. The other, also less than one volt, is in the laboratories of Dr. Frederick D. Sisler of the Interior Dept.'s Geological Survey. It, too, looks promising for scaling up to a power potential suitable for industrial use.

Kaye's cell developed from study of the striking similarities among many kinds of direct conversion systems. Sisler's came out of the observation that ocean sediments and their overlying sea water naturally behave as giant fuel cells. But their thinking led to the same conclusion.

If the heat of decomposition of organic matter on the sea bottom produces a trace of electrical energy, Sisler reasoned, why couldn't a more effective cell be put together in the laboratory and harnessed to do some real work?

What was the common denominator in other direct energy converters, Kaye asked? The answer: fuel and a catalyst. Since bacteria are much better catalysts than the average chemical catalyst, why not try to make a fuel cell using bacteria and an appropriate fuel nutrient?

Design of cell. Kaye's original cell used sugar as a nutrient and bacteria as a catalyst to hasten the decomposition; Sisler's uses sea water and bacteria.

Each is made up of two sections: an anode section and a cathode section, separated by an ion-diffusion bridge. Bacteria and nutrient material are placed in the anode side; oxygen and, in the Sisler cell, sea water go into the cathode side. As bacteria "burn" up the nutrient, energy is produced, and the cell is designed to take off this energy as electricity rather than as heat.

To be solved. Researchers are far enough along in the development of the biochemical (bacterial) fuel cell to realize some of the problems they face before they can produce a commercial unit:

1. They must do something about reducing cell resistance. As in the lead storage battery, the chief sources of resistance are the cell's electrodes themselves. With use, a film tends to form on the surface of the electrodes, thus cutting down the cell's rate of reaction.

2. They must go further into the question of what bacteria act best with what nutrient materials. At best, this is a trial-and-error problem. But it probably can be solved within a reasonably short time.

3. They must give more thought to the proper shape for the biochemical fuel cell. To a large degree, efficiency in this type of fuel cell is a function of how easily the bacteria can get to the nutrient material and how quickly, in turn, the ions that they produce can get to an electrode. Some scientists theorize that this efficiency eventually may be brought up to 70%.

Military uses. According to Dr. John Welsh, president of Kaye & Co., results so far suggest that before yearend biochemical fuel cells will be made that can turn out a watt of energy.

The Navy, Army, and Air Force all are eying the biochemical fuel cell with the idea of starting up their own development projects. If this comes soon, observers say, there's no theoretical reason why military bacterial fuel cells can't be made available to power small transmitters within a few years.

From the military standpoint, the chief advantage of a biochemical fuel cell would be its long life. Also, it should be possible to put together such a cell in a relatively small package, with a decided size and weight advantage over conventional storage batteries.

Garbage payoff. Long-range, Sisler suggests an even more astounding possibility. It may turn out, he says, that waste material—now dumped into rivers or treated in sewage plants at great expense—is the ideal combination to make a biochemical fuel cell run. If this should prove out, sewage someday may be as valuable as fossil fuels—coal, gas, and oil—as a source of electric power.

Most scientists are unwilling to accept this possibility at full face value as yet. But they are impressed by what the development of the biochemical fuel cell seems to indicate. Researchers, apparently, have not come close to exhausting the possibilities when it comes to new types of direct energy conversion systems. No single system will supply tomorrow's electrical energy demands. Which system will be first to challenge the steam turbine and what the mix will be, nobody can predict yet. But a mix it surely will be—a mix depending on research now going on in the nation's laboratories. **End**

International outlook BW

May 6, 1961

Almost a lost cause in Laos

Chances of a cease-fire in Laos looked better at midweek as dickering began between the opposing military forces there. Even so, **Laos is all but lost to the Communists.** There can be no doubt about that.

Washington still is keeping its fingers crossed about the cease-fire. The Communist Pathet Lao obviously is tempted to follow up its military victories with a decisive blow at the reeling Royal Army. The negotiations may be just another example of the "talk peace, make war" tactics the Communists used at the end of their takeover in China.

On the other hand, **it's possible the Communists are convinced their present strong military position assures them of a solid political victory** and propaganda success, at the conference table. This, of course, would make further military action unnecessary.

Pres. Kennedy, meanwhile, is leaning away from U.S. or SEATO military intervention in Laos. In doing so, he has strong backing in Congress, and from London and Paris. At most, the U.S. might intervene to enforce a partition, to hold a part of southern Laos as a shield for South Vietnam.

U. S. will take stronger stand in Vietnam

Washington is ready to take a tougher stand in Vietnam, where we have a direct commitment. **The U.S. and SEATO almost certainly will take military steps to bolster South Vietnam's Pres. Diem** in his bitter war against Communist guerrillas from North Vietnam.

Some SEATO and U.S. military units probably will be moved into Vietnam soon. Note that a strong U.S. naval task force, headed by the carrier Coral Sea, is reported to have pulled out of SEATO maneuvers and steamed for waters adjacent to Vietnam.

Sending troops to Vietnam would be aimed primarily at steadying South Vietnamese morale, shaken by the retreat in Laos. Some U.S. units trained in guerrilla tactics might be a real help in the fighting, though. (They might also free some of Diem's forces to conduct reverse guerrilla warfare in North Vietnam.) A SEATO buildup in Vietnam would strengthen the non-Communist bargaining position at the political conference on Laos —if it comes off.

Moscow may risk showdown in Berlin

There are other reasons, too, for strong action in South Vietnam. Some U.S. officials fear that the Cuban fiasco, followed by an obvious retreat in Laos, may encourage Soviet Premier Khrushchev to grab again for Berlin—bringing the issue this time to a showdown.

These officials are telling Kennedy that he must make it clear in Vietnam that the U.S. will not back away from its basic defense commitments. If we wait until a Berlin crisis is on us, say these officials, there's a danger Khrushchev will miscalculate and put the world on the brink of nuclear war.

You even begin to hear the argument that it may take partial mobilization in this country to convince Khrushchev not to push things too far in Berlin.

U. S. to continue Geneva talks on banning tests

Discussing disarmament with the Russians today looks like an exercise in futility. **The Communists are not only shoving us around in Cuba and Laos, but also refusing to negotiate seriously on arms control.**

Even so, Kennedy has decided to continue the Geneva test-ban negotiations a while longer. U.S. negotiator Arthur Dean has been conferring with the President this week on the problem. He will return to Geneva next week with instructions either to get Soviet concessions or make it crystal clear that Moscow's terms make agreement impossible.

The big new roadblock is Soviet insistence that the test-ban control organization be headed by one Soviet bloc director, one Western director, and one neutral director—with unanimous decisions required. This would give Moscow a built-in veto and would paralyze any attempt to inspect or control the test ban.

Postponing the hard decisions

The hard decisions—whether and how to break off the Geneva talks, whether and when the U. S. should resume underground nuclear testing—have been postponed until Dean makes this last effort. **No fixed deadline for the decisions has been set.**

The decision on whether to break off the test-ban talks and resume testing will be a ticklish one for Kennedy. **If the U. S. breaks off the talks, Khrushchev could score a major propaganda victory.** If Kennedy procrastinates too long, he will invite political charges at home that he is indecisive.

Britain close to joining Common Market

London soon may be negotiating its way into the six-nation European Economic Community. **Prime Minister Macmillan apparently has made his decision** that Britain should join EEC once all its members show their readiness to negotiate as a group.

The British aren't willing simply to sign the Treaty of Rome under which EEC was set up. **But London will have to accept the treaty as the basis of negotiation,** and subscribe to its political implications. Until London makes this clear, there's no chance that France will go along.

The three issues

Even if this big hurdle is taken, London will have plenty of thorny problems to work out with the Six. British officials already are talking about "the three issues" that must be settled:

- **Rights for Commonwealth nations** in the enlarged EEC that are as favorable as those promised in the Rome Treaty to the overseas territories of France, Belgium, and the Netherlands. Britain already has offered to give up the preferences that its exports now enjoy in the Commonwealth.
- **Special arrangements** for any of Britain's partners in the European Free Trade Assn. that can't join EEC. This probably will be the case with the neutrals—Sweden, Switzerland, and Austria. So Britain feels duty-bound to see that they don't suffer from the collapse of EFTA.
- **Some compromise on agriculture.** Britain keeps its food prices down by allowing imports to come in duty-free and subsidizing its own farmers. Thus, the cost is paid by the taxpayer and not the consumer in the shops. The Six, on the contrary, have settled on a system that restricts low-cost imports from outsiders, while using an equalizing levy on, say, wheat that moves from relatively low-cost France to high-cost West Germany. Under this system, it's the consumer who pays the cost.

Heading for Atlantic union

In moving to break the deadlock between Britain and EEC, Macmillan seems to have more in mind than a broad European economic and political confederation. **He sees this as a necessary step to an Atlantic union,** which would include the U. S. and Canada. Behind it all, of course, is the growing Communist threat to the democratic nations.

Soviet weapons go to Ghana

Washington is keeping an anxious eye on Ghana. **Large shipments of Soviet arms are reported to have arrived at Accra,** possibly for shipment to pro-Communist leader Gizenga in the Congo. Should Ghana attempt to supply arms to Gizenga, Washington would reconsider U. S. financial support for the giant Volta River project in Ghana.

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In the markets

BW

More news about the markets:
Page 80, Recess in Alleghany fight
Page 82, SEC hits at stock manipulations

Market warms up as world crises cool; military and space issues get big play

Stock prices resumed their rally this week, prompted by the cooling of the international situation and the spate of company meetings promising better things to come. The cold war had its impact, however; **most of the buying was concentrated in military and space issues, particularly aircraft stocks,** which are selling at comparatively low price-earnings ratios compared to some of the glamor growth stocks.

Some analysts think that the business upturn will spark a rise in other issues selling at normal price-earnings multiples. They think that growth has been overdone and that the cyclical issues, bound to benefit from a rise in business activity, will gain in favor They look for higher prices for machinery, steel, metals.

There's a possibility that this kind of switch could mean lower over-all prices, as investors sell some of the high fliers to buy depressed issues. But most analysts think that prices will continue to rise, although at a somewhat slower pace.

Commercial banks lead demand for bonds in a broad market surge this week

The bond market surged upward this week on a wave of buying by commercial banks. Throughout the market—in governments, tax-exempt municipals, and corporates—the tone was strong, with new issues bid to significant premiums over their offering prices.

Setting the pace was the Treasury's $7.75-billion refunding offer—a 3% one-year certificate and a two-year 3¼% note. **The market evidently considered both attractive, for they immediately went to a premium.**

Bond dealers say that commercial banks have sparked the upturn. Their motivation, in turn, has been the aggressive ease that the Federal Reserve has been promoting in the money market recently, as well as the continuation of "Operation Nudge," the Administration's effort to push down long-term rates to encourage business borrowing. But while some investors are hoping that the ease will be permanent, the prospect is for tightening rates as business demand increases.

On another front, the Treasury last week quietly interred, once and for all, **the controversy over the 4¼% ceiling on interest that the Treasury is allowed to pay on bonds of over five years' maturity.** Treasury Secy. Dillon got a ruling from Atty. Gen. Robert F. Kennedy that the ceiling applies only to the coupon rate on a Treasury bond, not to its effective investment yield. If long-term bond rates should once again go over 4¼%, the Treasury could either engage in advance refundings that would provide investors with a yield over the ceiling or else float long-term bonds by simply offering them at a discount.

Morgan Guaranty joins syndicate to do investment banking in Argentina

A blue-ribbon international banking syndicate has been put together to move into the securities business in Argentina. Morgan Guaranty International Finance Corp., a subsidiary of New York's Morgan Guaranty Trust Co., Baring Bros., one of the oldest and largest of London's merchant banks, and Robert, Meynell y Cia., of Buenos Aires, are forming a new firm to be based in Argentina to do underwriting and private placements and to provide investment advice. The amount of the investment was kept secret.

The linkup between Morgan Guaranty and Baring Bros. raised eyebrows on both sides of the Atlantic, since it bypasses Morgan's traditional London "connection," Morgan, Grenfell Ltd. Morgan Guaranty, which owns a third of Morgan, Grenfell, says that **there is nothing unusual about the deal with Barings, that the two banks had long been "friends," and that Barings had business connections in Argentina going back to the Nineteenth Century.**

Morgan's deal represents the second move by a U. S. bank into Argentina. Last fall, the First National Bank of Boston put $1.5-million in an Argentina financiera set up to handle short-term commercial paper of local distributors of farm equipment, trucks, and buses (BW—Nov.5'60,p83).

Dealers try to enforce 4 p.m. curfew on over-the-counter trading in New York

A sharp dispute is developing in the over-the-counter market over "moonlight" trading—trading after normal closing hours. At one time, the O-T-C market used to close at 4 p.m., a half-hour after the New York Stock Exchange's close. **With the recent surge in trading volume in all the markets, the O-T-C market has been going full blast until 5 p.m. or even later.**

Now the New York Security Dealers Assn., a group that deals mostly with professional customers, is trying to cut the closing hour back to 4 p.m. But the big retail wire houses that deal with the public—for example, Merrill Lynch, Pierce, Fenner & Smith, Inc., and Bache & Co.—aren't going along. They're continuing to trade right up to 5 p.m. and sometimes later.

The big question is whether the O-T-C dealers can make the 4 p.m. curfew stick, even with opposition from Merrill Lynch and other big houses. Betting is they will.



Allan P. Kirby, Alleghany chairman, after flight to Baltimore in private plane, arrives all on edge, talks to advisers.



Attending his first Alleghany meeting, Kirby takes front-row seat with family after introducing himself to stockholders.



After meeting has recessed, Kirby becomes pensive; what if the 3.8-million shares he controls shouldn't win the day?

Alleghany battle

Rivals get into ring, knockout still to come

First session of Alleghany Corp. stockholders meeting quickly recesses to await proxy count, with both sides' pre-battle confidence just a bit deflated

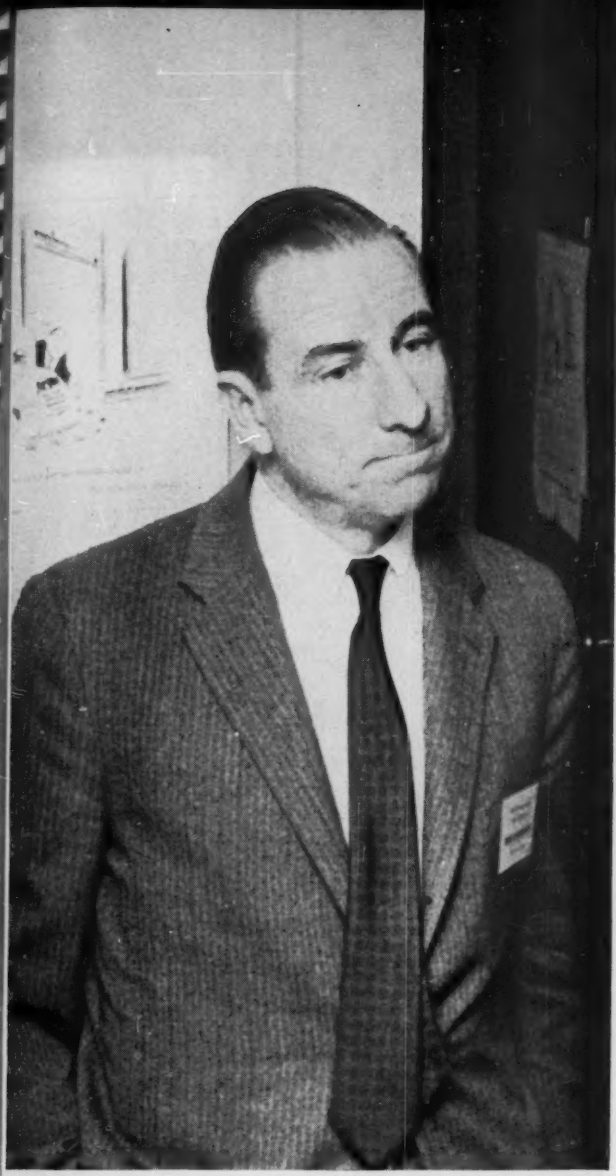
The main event between Allan P. Kirby and the Murchison brothers of Dallas for control of Alleghany Corp. was tame, compared to the preliminaries (BW—Apr.29'61,p99).

In just 86 minutes, a chipper Charles T. Ireland, Jr., president of Alleghany, flawlessly ground the annual meeting in Baltimore to a recess —pending completion of the voting —without any fireworks erupting. It will reconvene next Monday, May 8, at the Lord Baltimore Hotel.

The rival millionaires' forces had privately set the ground rules for the meeting: debate was limited to three minutes per speaker, no personalities were to be indulged in, the polls were to remain open until 9 a.m. Tuesday morning. The votes were in and the time for cannonading was over, Ireland said.

No assurance. Neither side in the proxy contest, however, can view next Monday with complete assurance—if, indeed, the vote count is completed by next week.

Kirby, who came to Baltimore with



John Murchison, fighting Kirby along with his brother Clint W. Murchison, Jr., also has second thoughts after meeting.



At private brunch before meeting, John Murchison (right), with his associates, goes over his carefully laid plans.



In huddle with attorneys and floor leader, Murchison discusses whether to answer any embarrassing floor questions.

3.8-million shares in his control, is confident of victory. So, too, are the Murchisons, who insist that they have rounded up enough big blocks of stock in independent hands to give them the prize.

But the Murchisons held a "victory party" a few nights before the annual meeting, "just in case we lost." And inside the Kirby camp, there are some regrets about the lack of steam in the Kirby campaign.

The deciding vote will be cast chiefly by the shares of stock held in street name by Wall Street houses, which are eager to get commissions from Investors Diversified Services, an Alleghany investment company holding and the real prize of the contest. An added note of uncertainty, though, was injected by the relatively light vote. Some sources say that, out of the 9.8-million shares, 800,000 votes will not be cast. That means that a bit over 4.5-million votes could win.

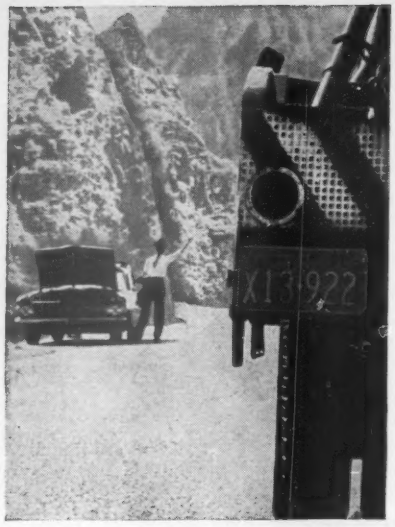
Expansive Texans. The Murchisons pulled out all the stops in Baltimore. One veteran of political wars likened it to a Kennedy-type campaign. A typical touch: The Murchison group passed out hundreds of small plastic paperweights, with a nickel embedded, labeled "The Kirby Dollar." Just two weeks before, Alleghany had declared its first dividend in 32 years—a nickel.

The Texans arrived with a 100-man contingent, commandeered suites, conference rooms, private telephones. (Security guards were placed on the hotel's roof to stop any tapping or cutting of lines.) Ubiquitous aides-de-camp worked tirelessly, even to a rush call at 1:00 a.m. Tuesday morning for mislaid proxies; two were found.

Kirby side. The Kirby crew arrived piecemeal, but eventually matched the Murchison numbers. One of the first persons greeting Fred Kirby, Kirby's son, was an old friend, Clint Murchison, who humorously flashed a big "I Like Kirby" button.

The group held a last-minute briefing, but did a lot less cornering of the 500 attending stockholders than the Murchisons. As far as they were concerned, the job was done.

After victory. Still, the battle will not be over even after the votes are counted. Whoever loses will have a tremendous investment in Alleghany —and the winner will wear an uneasy crown. **End**



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SEC cracks down on market manipulation

By taking action on major cases involving stock exchange firms it indicates both the danger to investors and its determination to rid the market of price rigging

Last week the Securities & Exchange Commission served forceful notice on the investment community that old-fashioned manipulation is still a clear and present danger in the stock market:

▪ SEC's staff published a detailed bill of particulars charging the firm of Re, Re & Sagarese, one of the largest specialist firms on the American Stock Exchange before it was suspended last year, with a host of violations, including illegal distribution of over $10-million worth of common stock during a six-year period. The charges were essentially the same as those SEC made a year ago (BW—May 21'60,p161)—but now the agency has facts and figures to back up its allegations.

▪ SEC also took disciplinary action against Bruns, Nordeman & Co., members of both the New York and American Stock Exchanges, for manipulating the price of shares in Gob Shops of America, Inc., a small Rhode Island retail outfit. Two of the firm's general partners, including its senior partner, Laurence H. Lubin, were also disciplined.

Speculative fever. In recent weeks, many market observers have become increasingly concerned about the rise of speculative fever in the market. G. Keith Funston, president of the New York Stock Exchange, went so far as to issue a warning about the dangers of uninformed stock buying.

What the SEC has done now is to point out that uninformed speculation—which is perfectly legal—is not the only peril the market faces. In effect, by taking almost simultaneous action on two important, albeit old, cases, the SEC is warning investors that manipulation—i.e., the illegal rigging of the market so that a few insiders can benefit—is still present in the market place.

In so doing, SEC is harking back to its original purpose. When Congress brought the securities industry under federal regulation in 1933 and 1934, it intended to rid the markets of the price rigging that so undermined the bull market of the late 1920s. By and large, the SEC has done its work well, but the recent disclosures, particularly in the case of Re, Re & Sagarese, show there's still work to be done.

New issues market. Currently, SEC is most concerned with the new issues market where shares in many companies are jumping overnight to sharp premiums over initial offering prices. The SEC is keeping a close eye on hot new issues, watching for signs of possible manipulation.

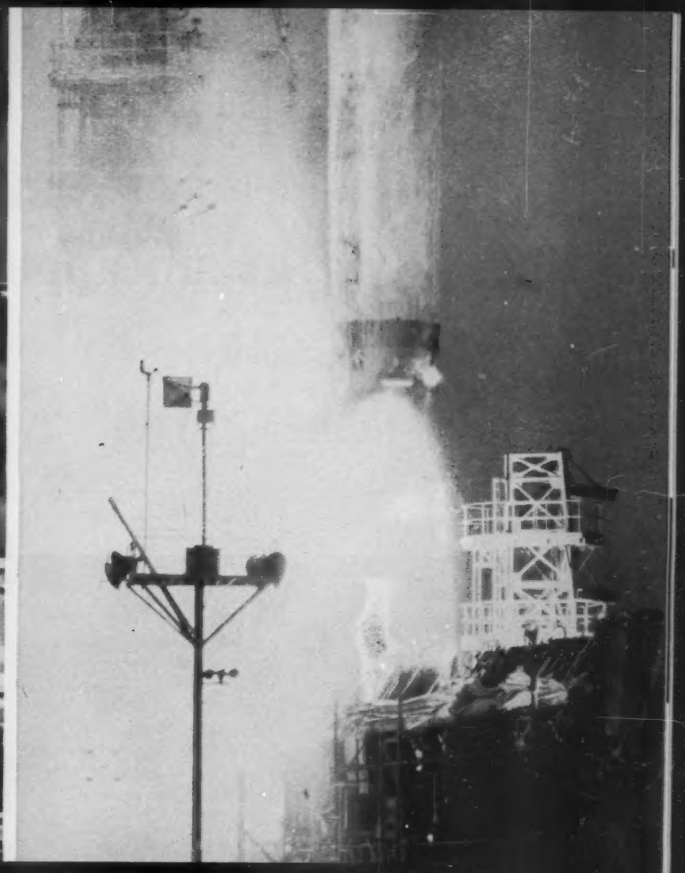
The commission has already taken some steps: One underwriter, R. A. Holman & Co., Inc., has been charged with holding back shares in a public sale of stock in order to create an artificial demand (BW—Oct.8'60,p147). And recently SEC warned underwriters about tie-in sales of stock—"I'll sell you 100 shares if you'll agree to buy 100 more in the open market after the issue is sold."

The significance of the Re, Re & Sagarese and Bruns, Nordeman cases lies in the violations involved and the persons who committed them. Never before has the SEC had to move against a firm of specialists and it's not often these days that the senior partner of a New York Stock Exchange member firm gets accused of rigging a market.

Major challenge. The SEC points out that such persons, who are the very heart of the securities business, represent a major challenge to securities regulation. At stake is the question of public confidence, already shaken by the defalcation of Anton E. Homsey, senior partner of a Boston brokerage house. Some brokers say there is a growing feeling on Wall Street that a housecleaning will be in order if self-policing doesn't stamp out misdeeds.

In fact, in a significant dissent to the Bruns, Nordeman decision, newly appointed SEC Commissioner





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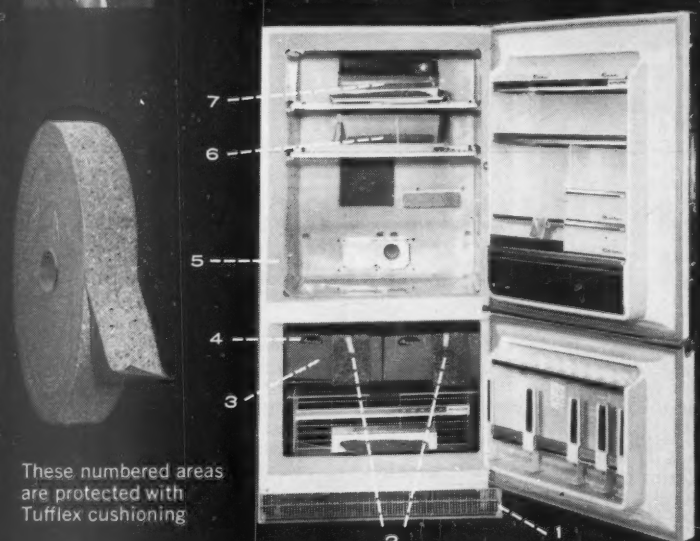
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J. Allen Frear (former Democratic senator from Delaware) complains bitterly about the lightness of the penalties imposed. Moreover, there may be a Congressional investigation of the Re, Re affair. These could be harbingers of tougher things to come.

Though both cases are important, the Re, Re affair—because of a specialist's key position in the market place—is especially significant.

Key responsibility. As specialists, the Res—who are father and son—had the job of maintaining a "fair and orderly" market in a group of about 20 stocks that were assigned to them by officers of the ASE.

The specialist acts both as broker—executing orders for others—and dealers—buying and selling for himself. He keeps a "book" on unexecuted orders, enabling him to tell at a glance the state of the market in each stock. So long as supply and demand are in reasonable balance, the specialist simply acts as a broker.

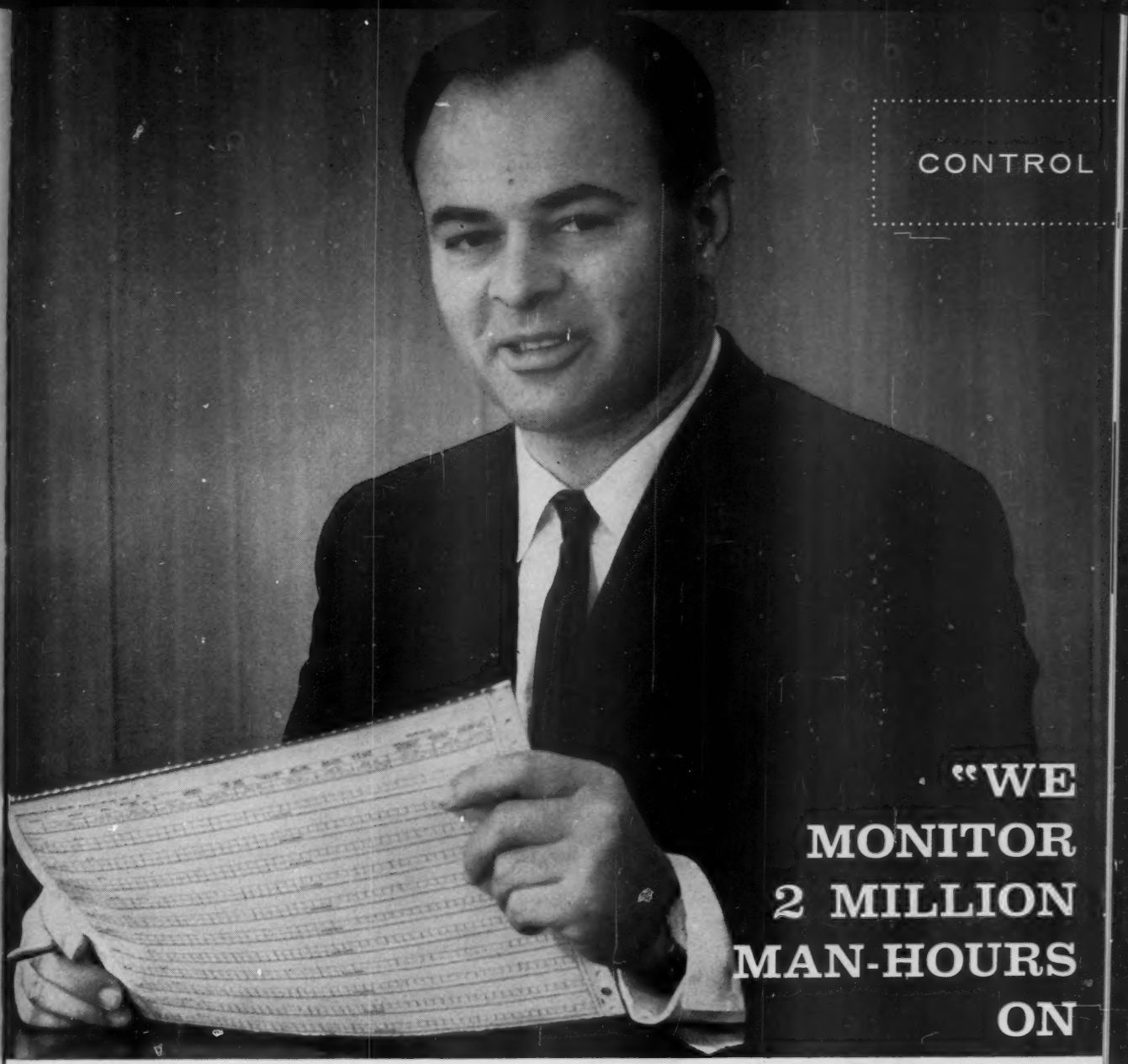
But when there's an excess of either demand or supply, he is supposed to step in and absorb the excess on his own account. The Securities Acts and the stock exchange rules limit the specialist's transactions on his own account to those "reasonably necessary" to maintain "a fair and orderly market" in the stocks in which he is the specialist.

Violations. According to the SEC, the "Res repeatedly violated their fiduciary obligations to other members and their customers who had entrusted their orders to them." Their techniques, according to the SEC, were varied and complex, but basically worked like this: The Res would set up dummy accounts at brokerage houses and then funnel shares through these accounts for distribution to the general public at a markup.

SEC charges that the mere fact of such a distribution is illegal for a specialist. In addition, these distributions were often of stock that under SEC rules would be considered "control stock," which must be registered with the SEC. But these shares were never registered.

More misdeeds. The Res did not stop there, says SEC. At various times they would "paint the tape"—churn stock around between accounts that they controlled to create the illusion of trading activity and thus stimulate public buying.

The Res concede that "the facts plainly justify" any sanctions the SEC chooses to take against them. They argue only that the penalties imposed on Gerard F. Re (the son) should be less severe than those imposed on the father. **End**



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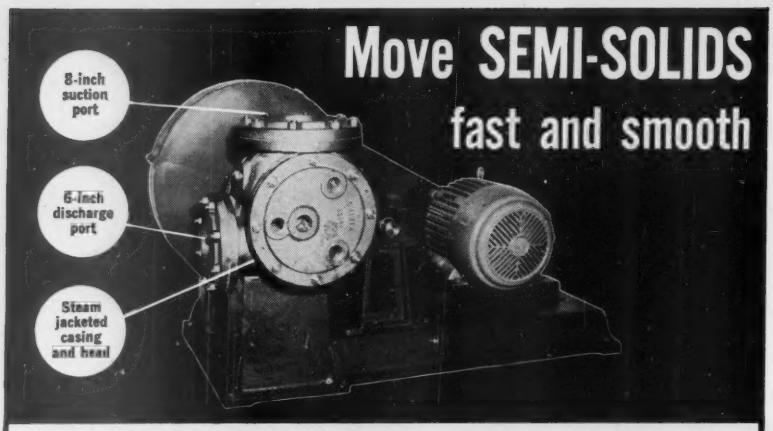
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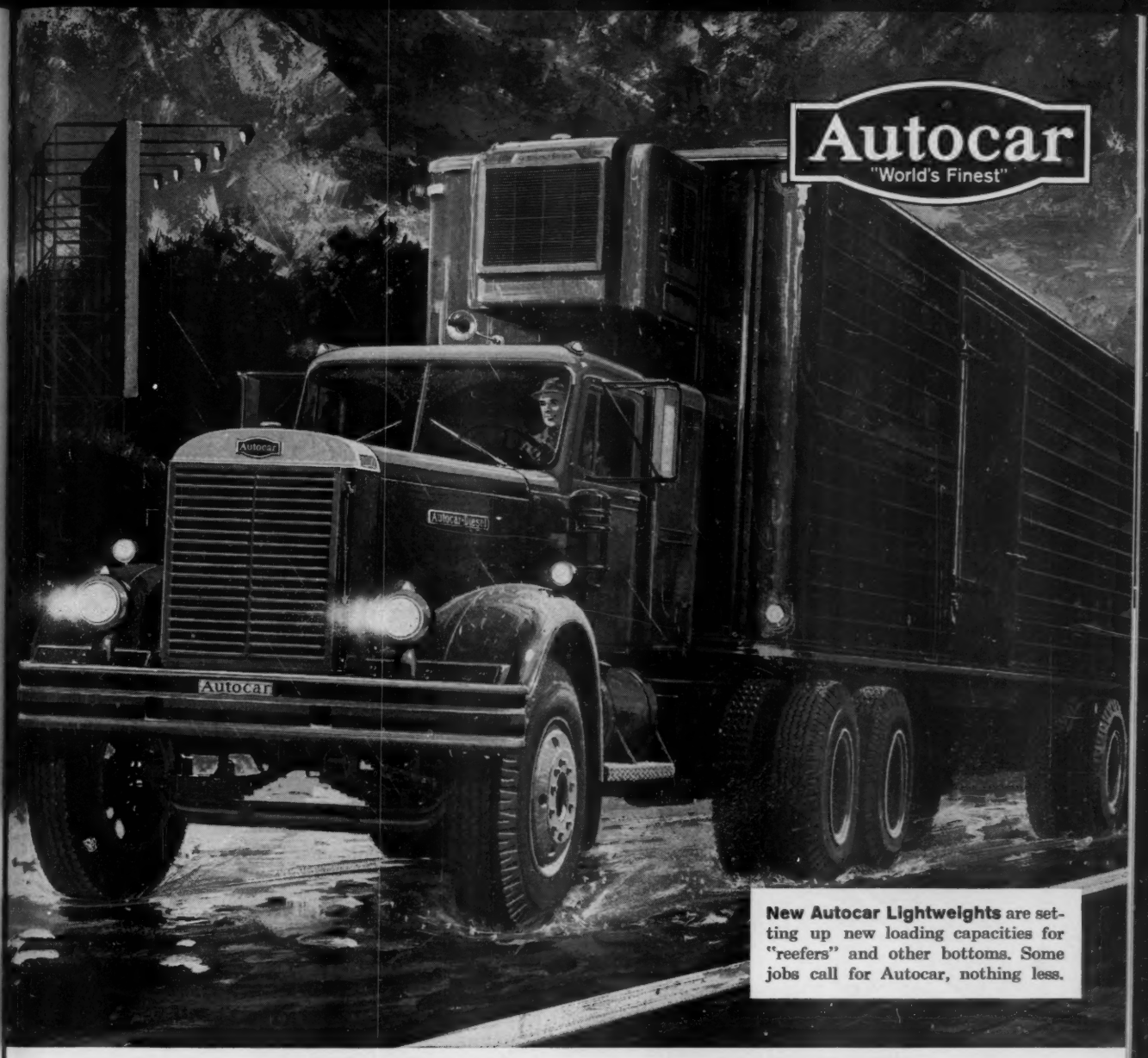
The World Bank is being asked to consider an international investment guarantee scheme to stimulate private investment in underdeveloped countries. Under the scheme, private investors anywhere in the world would be encouraged to embark on long-term projects by being granted World Bank insurance against political expropriation. Sponsors of the scheme say that the premiums paid should cover losses.

Some of Wall Street's smart money is the big factor behind the **sharp rise in Frankfurt of Allianz Versicherungs A.G.**, largest of the German fire and casualty insurance companies. In two weeks, it has jumped from 4,200 Deutschemarks per share to 5,000. According to one foreign stock house, the attraction of Allianz lies in the "hidden" reserves that the company piles up for reinvestment. Such reserves make a big difference in operating results; after reserves, Allianz reports only a 5% profit from insurance (as distinct from investment income), while the "true" figure is probably between 15% and 20%.

The 1¢ rise in copper prices to 30¢ a lb. (page 19) caused a flurry in copper stocks. Getting the biggest play is Magma Copper Co., the most highly leveraged of the companies, which trades currently at $60, up 5 points in the past week; it traded as low as $38 this year.

Investor interest in **Transitron Electronic Corp.**, the hottest new issue in 1959 (BW—Dec.5'59,p123), has cooled off. Transitron is now trading in the 33-34 range (1960-61 high: 60), and just this week a seller, reportedly a big mutual fund, unloaded a 60,000-share block of the stock in a secondary offering at 33⅝, which undoubtedly represented a substantial loss.

Amerace Corp., a diversified manufacturing company (combs, bowling balls, plastics), is the new star performer in the market, jumping up better than 30 points—to 97—on news of its plans to buy Swan Rubber Co. of Bucyrus, Ohio.



New Autocar Lightweights are setting up new loading capacities for "reefers" and other bottoms. Some jobs call for Autocar, nothing less.

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4475 extra pounds of perishables per trip! No wonder reefer operators are getting aboard the new Autocar "lightweights"—the "A" series models that cut up to 25% off chassis weight while retaining every ounce of strength and "go" power.

This A7564T diesel is virtually an all-aluminum structure from frame to roof of cab—yet it's rugged. All the economics are in its favor. Payload goes up, maintenance goes down—in true Autocar fashion. Per-ton-mile hauling costs are "flattened."

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In business abroad

BW

Canada contracts to sell Red China $362-million worth of grain and flour

Canada this week completed the largest single commercial transaction in its history. Under a long-term agreement, it will sell to Communist China an estimated $362-million worth of wheat, barley, and flour.

Delivery is to be made over a 30-month period extending from June of this year to December, 1963. Peking has agreed to pay 25% cash for the goods, in sterling, and the balance will be covered by short-term credit granted by the government-operated Canadian Wheat Board, sole grain marketing agency in that country. The Canadian government will guarantee to a maximum of $50-million the credit necessary for the transaction.

To date, only the initial contract under the long-term agreement has been signed. It calls for the delivery between June 1 and Nov. 30 this year of $66-million worth of wheat, barley, and flour. Each future contract under the long-term agreement will be negotiated in respect to price and quantity.

This new transaction does not include $63.7-million worth of grain and flour sold to Red China earlier this year. With 90-million bu. of wheat slated for delivery in 1961, **Red China becomes Canada's second largest wheat customer.** Britain is buying about 100-million bu. this year.

British monetary reserves falling; $72.8-million April drop reported

Britain's gold and convertible currency reserves fell $72.8-million in April to slightly under $3-billion.

This decrease, although smaller than had been expected in London financial circles, came on top of a $173.6-million drop in March, blamed largely on the Deutschemark revaluation, and a $50.4-million slump in February. The total loss of $296.8-million over the past three months compares with a gain of $915.6-million during the previous 12 months.

The real extent of the decrease, however, has been masked through the cooperation of the European central banks, which have been supporting sterling under the Basle Agreement to stabilize foreign exchange markets.

1960 figures show West Germany passes U. S. in rate of investment in Brazilian industry

Figures just released in Brazil point up the slackening pace of U. S. investments in Latin America (page 38).

The over-all rate of foreign capital investment in Brazil fell sharply last year—from $100-million in 1959 to $66.7-million—as many foreign companies wound up large-scale investment programs.

At the same time, the rate of U. S. investments in Brazil slipped below the total invested by West Germany. **New investments by West German companies, primarily in the Brazilian automotive industry, topped the list with $24-million,** against $19.4-million for the second-place U. S. France was third with $5.4-million, followed by Japan with $4.8-million and Britain with $3.5-million.

Brazil can take comfort however from the fact that the foreign money invested in Brazilian industry is starting to pay off. Output from Brazil's automotive industry, largely foreign-financed, cut parts imports from $96.1-million in 1959 to $30.3-million last year.

Machinery, metal goods stand out in bright British export picture

Machinery and metal goods are the two big factors in the brightening British export picture.

Exports in these categories for the first quarter of this year are up $117.6-million over the fourth quarter of 1960. Meanwhile, total British exports increased only $36.4-million for the same period. The reason: **Much of the gain registered in machinery and metal goods has been offset by drops in automobiles, aircraft, and woolen goods.**

Actually, British machinery exports have been front runners for some time now. Last year, for example, machine tool production rose 21% compared with a 10% increase in the metalworking industry as a whole. Exports climbed 31% over 1959 against 14% in the entire industry—winding up 1960 with $68-million in export sales.

West German election campaign begins; close, freewheeling contest seen

With the windup of the party conventions of the Christian Democratic Union (CDU) and the Social Democrats (SPD) last week, West Germany's national election campaign is now officially under way. And it promises to be a freewheeling one, more like an American campaign than any previously waged in Europe.

By virtually every measure, **Chancellor Konrad Adenauer's CDU is the odds-on favorite to win a Parliamentary majority and the Chancellery again this Sept. 17.** Using the election slogan "no experiments," Adenauer's party is stressing its 12-year record of booming prosperity and increasing influence in the Western Alliance.

It will not be an easy win, though. Willy Brandt's SPD is making its strongest bid since the formation of the Federal Republic in 1949. **Under Brandt the party has discarded most of its old-line Socialist views, such as nationalization of industry.** The party's social and economic promises are hardly more radical than those of liberal Democrats in the U. S.



Haymarket Square riot in Chicago in 1886, three days after massive worker demonstrations for cut in 10-hour day, was a serious setback to labor's cause.

In the 1930s, worker rallies were common as unions sought to obtain a work day of eight hours or less as a means of increasing jobs.



Historic issue revived

Shorter work week is important labor goal in 1960s, as it has been many times in past

The shorter work week is under discussion again as the next hot bargaining issue between labor and management. It's a part of the United Auto Workers' flexible plan of "bold new concepts" for 1961 negotiations. The United Steelworkers says it will press for a cut in work hours in 1962. And at least a score of other unions have listed this as a "must" for the 1960s.

The unions contend that work must be spread because technological advances allow industry to produce more with fewer workers. UAW Pres. Walter P. Reuther stressed this at a special bargaining convention in Detroit last week.

Jobs, not leisure. "We have to get to a shorter work week if we are going to meet the problems of automation and unemployment," Reuther told convention delegates. "We aren't fighting for more leisure. We are fighting for more jobs."

Despite internal pressures to make a shorter work week a separate, fighting issue, the convention went along with Reuther's plea for a flexible negotiating program by including reduced work time at the top of a broad list of alternatives toward a job security goal (BW—Apr.29'61, p73). Some delegates wanted a firmer commitment for a fight over a shorter work week, but Reuther assured them that flexibility and an apparent lack of specific demands doesn't rule out a determined fight for reduced hours through bargaining this year and through legislative action.

"The struggle to reduce the work day from 'sun to sun' down to 12 hours, 10 hours, and now eight hours was a struggle at bargaining tables and on legislative fronts," Reuther told delegates. "It still must be; one does not exclude the other."

Historic demonstration. The auto union action in Detroit came on the

eve of the 75th anniversary of labor's biggest, most militant demonstration for reduced hours—on May 1, 1886. On that day, the Federation of Organized Trades & Labor Unions mobilized 340,000 workers in mass demonstrations for an eight-hour work day. The May 1 rallies, accompanied by one-day strikes, were generally peaceful. However, they led into a riotous meeting three days later in Chicago's Haymarket Square (picture, page 90), and public indignation was so aroused against unionism and radicalism that labor's campaign was set back for years.

In the early days of American labor, the length of the work day and work week was second only to wages in the interest of workers. Unions fought during the 1820s and 1830s to substitute a 10-hour day for work from sunrise to sunset. Once the 10-hour day was obtained, union pressures began for nine hours.

Rallying cry. In the post-Civil War 1860s, with unemployment high and production of goods increased with fewer workers, unions demanded shorter work weeks to add to jobs. They rallied behind the philosophy of Ira Steward, who urged an eight-hour day to spread jobs and—through doing that—increase pay. Unions adopted his slogan: "Whether you work by the piece or by the day, reducing the hours increases the pay."

Steward's philosophy and effective couplet stimulated existing unions and led to the formation of new unions and "eight-hour leagues." Demands for shorter hours were placed before employers and lawmakers. The campaign reached a climax in a general strike in New York City in the summer of 1872. Then, with little progress, the campaign dragged on until the middle of the 1880s, when—with the 10-hour day still prevalent—the Federation of Organized Trades & Labor Unions laid its plans for the May 1, 1886, demonstrations and strikes.

Gradual success. Although this strategy miscarried, some unions did succeed in cutting work hours to eight a day in the 1880s. The chipping off process was under way.

It's been going on ever since. The American Federation of Labor gave at least moral support through the years to the eight-hour day, then the 48-hour week, the 44-hour week, and finally a 40-hour week or less. Its endorsement was weak at first, became stronger after World War I.

Before the eight-hour day and 40-hour week were firmly established in contracts and by law, some unions pressed for a six-hour day as ideal; AFL endorsed a six-hour day and

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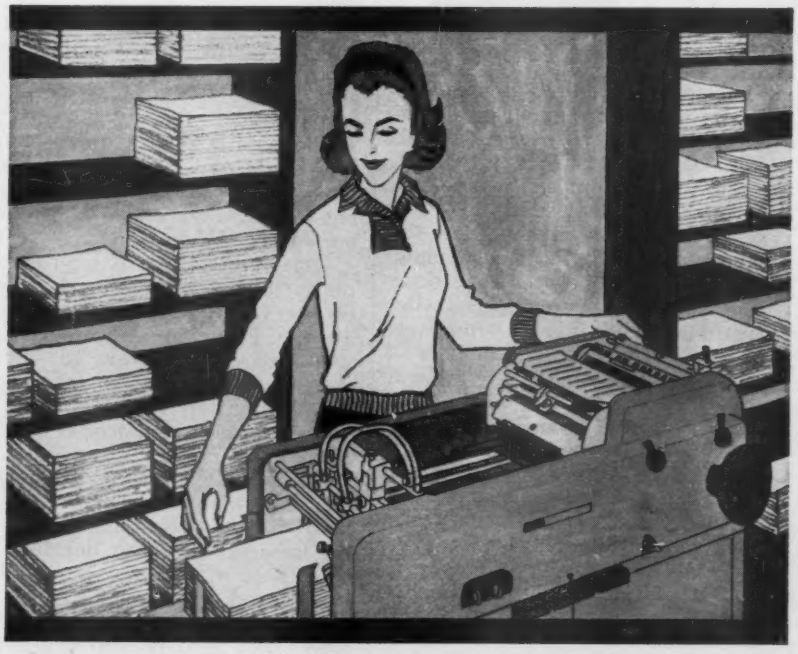
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30-hour week in emphatic language in 1932, as a basic recovery measure, it said. AFL renewed its 30-hour week demands in 1935, but the proposal was dropped.

The National Industrial Recovery Act had set standard hours, averaging about 40 a week but varying industry by industry, and the Fair Labor Standards Act in 1938 went a long step further to make an eight-hour day standard for work done in interstate commerce, and to establish a legal work week dropping to 44 and later 40 hours a week.

Union reasoning. The heavy pressure for cuts in working time came primarily in periods of unemployment. As now, the interest was in extending job opportunities. In an early AFL pamphlet, Samuel Gompers, as president of the federation, argued that if work hours could be cut from 10 to eight, five workers would be needed where four had been employed before. He developed a theory that this would mean broad rehiring of the unemployed and even the previously unemployable, creating a labor scarcity that would cause all wages to go up. It was challenged by economists, but workers were won over by its comforting simplicity.

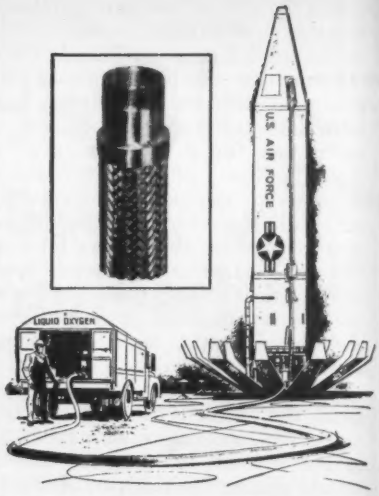
Between periods of job stress, unions talked in the early days of the need for reduced hours to provide more leisure, rest and recreation, family life, social opportunity, and time for advancement for workers.

Those arguments are seldom heard today. With the 40-hour week (in some industries 36 now) providing leisure, the entire emphasis is on shortened hours to create jobs.

Appealing slogan. If high unemployment continues, labor's insistence on reduced hours will continue. To the jobless auto workers and steelworkers, a rallying "30-40-60" slogan has great appeal, offering a prospect of 30 hours work at 40 hours pay, and retirement at age 60.

This slogan and philosophy had many advocates at UAW's bargaining convention, but a floor vote to make "30-40-60" a militant negotiating issue for 1961 was defeated by about 8-2-1 when Reuther urged that it be tabled.

Actually, few of the lower-echelon auto union leaders who urged the slogan's adoption really expected that "30-40-60" would be made a bargaining issue. One said frankly that his interest was in building up a strong propaganda campaign on "30-40-60" for a different reason entirely. Labor has lost much of its militance, he complained. It needs a new rallying idea—something to



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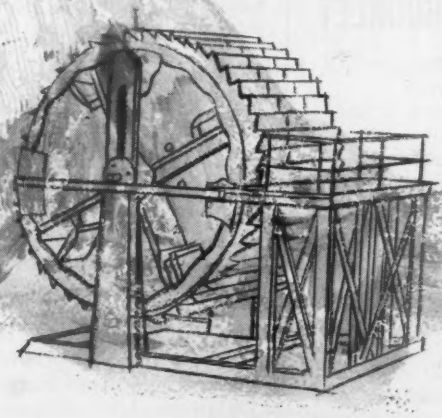
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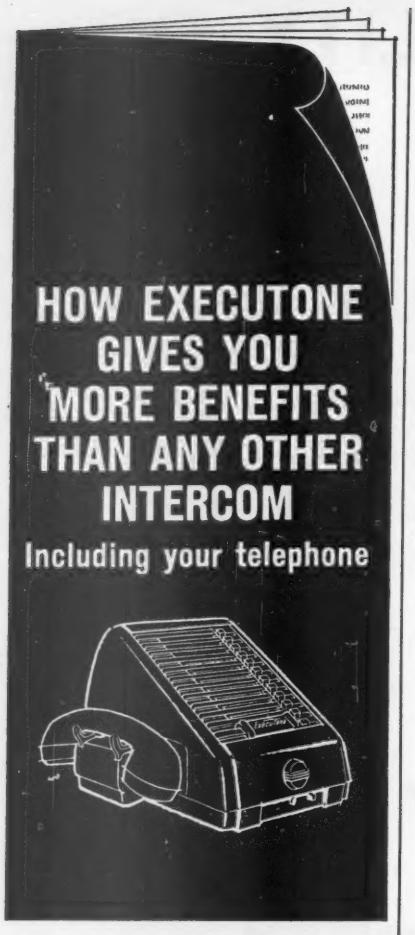
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catch the imagination and to stir workers into a renewed fighting, crusading spirit.

Realistic approach. Reuther recognized this, but warned that UAW should not advance any idea that it could not press realistically. If you're not willing to fight for it and if necessary strike for it, don't ask for it, he admonished delegates.

There is interest in the UAW rank-and-file for a shorter work week, but little readiness to undertake a hard strike on such an issue.

Under the circumstances, it now appears improbable that UAW will press a shorter work week—for a cut, say, to 36 hours—to a showdown this year. It might press pretty far toward one on a plan for a flexible work week—one to be geared to a company's employment position or the general level of unemployment in the auto industry.

Reuther's proposal. Reuther stressed this idea about as hard and seriously as any advanced in Detroit. He said that UAW wants to mobilize general labor support for an amendment to the Fair Labor Standards Act that would link the length of the work week to the number unemployed nationally. The union, he added, intends to place before employers a bargaining proposal that would do the same thing on a limited basis.

Here's the legislative proposal:

A national fund would be created into which every employer would pay approximately 1% of payroll. Whenever national unemployment rises above a "normal" level, the work week would drop automatically to a standard that would, theoretically, require the reemployment of enough workers to reestablish full employment. Say a cut to 38 hours a week would do this; the legal work week would be 38 hours work at 40 hours pay. Employers would draw the money for the unworked two hours from the national fund.

The bargaining proposal would be a parallel one. Either funds would be set up on an industrywide basis or company by company. But the operation would be the same.

Union attack on mergers fails

High court rules that employees who are made surplus by rail mergers can be discharged with compensation

The U. S. Supreme Court this week ruled that employees put out of work by a railroad merger can be discharged if they are properly compensated. The court thus removed a possible legal roadblock in the way of rail consolidations.

The decision (8 to 1) stymied one of a series of attacks on rail mergers by unions. Justice William O. Douglas, in a dissent, described the case as "a minor episode in an important chapter of economic history" dealing with job displacement.

Unions complain. The case was brought by railroad brotherhoods after the Interstate Commerce Commission approved a merger of the Delaware, Lackawanna & Western RR and the Erie RR Co. The Railway Labor Executives' Assn. complained that provisions planned for employees displaced by the merger did not meet requirements of the Interstate Commerce Act.

Under the act, employees affected by a merger cannot be placed "in a worse position with respect to their employment" for four years. The rail unions interpret this to mean employees cannot be discharged, even if a merger makes them unnecessary, for up to a maximum four years.

Not a job freeze. The unions won a temporary writ against discharges in a Michigan federal court on the basis of this argument, but the court later vacated its order. It decided that the interpretation of the law "acquiesced in by all interested parties for 20 years" is that compensation for displaced employees—not a "job freeze"—was intended when the law was enacted.

The Supreme Court upheld this position this week. It ruled that the DLW and Erie employees need not be retained if adequately compensated over a four-year period.

Justice Douglas, in dissenting, suggested that Congress and the courts are bypassing pressing problems arising from automation. He indirectly urged that Congress come up with new legislation—without the ambiguities that he said cloud the intent of the Interstate Commerce Act—which will help solve questions of the "toll which economic and technological changes will make." **End**

Personal business BW

May 6, 1961

London streets invite the wanderer

London is a city that invites leisurely wandering, if you want to capture its full flavor. The trick is to catch the sidelights that you don't read about in guidebooks.

You'll want to see the standard sights, of course, if this is your first visit or if you haven't done so in recent years. But take time for some extra prowling. For example, look around the **twisting streets of The City,** the square mile of financial community where top hats and bowlers are common. Stop by Keats' home **in the quiet older part of Hampstead;** mingle with the fashionable young marrieds **on King's Road in Chelsea;** view the fine regency terraces around **Regent's Park.** Or inspect **Shepherd's market** on a bright Saturday morning, when the vegetable carts do a booming business.

Pubs offer pleasant pauses

For refreshment, stop in at any pleasant-looking pub you pass—they're a great enjoyment, once you get used to the hours (generally, 11:30 to 3, 5:30 to 11 weekdays and Saturdays, and 12 to 2, 7 to 10 Sundays). Try **The Grenadier** in Wilton Row, off fashionable Belgrave Square; you'll see a smart-set crowd, and a fine example of a mews—formerly stables and servants' quarters, now chic places to live. A pub with good Victorian rococo is **The Red Lion,** on Duke of York Street off St. James Square. Many pubs are handy spots for a quick lunch washed down by a draft of beer.

In many ways, the pubs are most pleasant on Sunday, a traditional time for socializing. The **King's Head and Eight Bells,** a pub on Cheyne Row in Chelsea, is stylish, leisurely. **The Spaniard,** on Spaniards Road in Hampstead, is an ancient coaching inn, with a delightful rear garden. When it closes at 2, you can move on half a mile to **Kenwood,** an excellent example of an English country home, overlooking Hampstead Heath.

Speaking of countryside, **there are many day-trips you can make by rented car**—preferably with a driver to sort out the confusion of side roads. **Oxford, Cambridge, Canterbury, Epsom Downs** are all within two or three hours. And there's seaside Brighton, with its fantastic, Mogul-styled Royal Pavilion built in the late 18th Century. Several Thames-side villages offer pleasant country inns—Bray, with its Monkey Island Hotel and the Hind's Head; Hurley-on-Thames, with the Old Bell; Sonning, with the French Horn.

Where to eat in London town

Contrary to rumor, there are many good restaurants in London—but **most of them serve continental cuisine of one sort or another.** Some combine fine food with old world British decor, like Rule's in Maiden Lane, Wheeler's in Old Compton Street, and Overton's in Victoria.

You'll discover many Indian restaurants, some superior, like Veeraswamy's in Regent Street, and Jamshid's and Star of India, both in South Kensington. **Chop houses, retreats mostly for men, are found in The City.** They are open for lunch, and specialize in beef to be washed down with "bitter" (most popular draft beer). Best known are The George and Vulture and Simpson's. Your wife may do better to go shopping this day.

London still buttons up early as ever. After pub-closing at 11, you can imbibe only in your hotel or in a restaurant serving food (a few ordinary places are open, serving drinks until midnight). But **many nightclubs stay open late,** mostly requiring "membership"—though entry is no serious problem. Most fashionable are Les Ambassadeurs, Siegi's, Casanova, 21 Room, River Club, and 400 Club. The 400 is exclusive, may take a British friend to get you in. Two big clubs, Pigalle and Talk of the Town, are mainly tourist attractions.

Many attractions at the theater

Theater in London, of course, is superb. In addition to the West End playhouses, Covent Garden for opera and ballet, and the Old Vic for classics, check on what is playing at two leading offbeat theaters—**the Royal Court and the Theater Royal, both in Stratford.** This is a working-class London suburb; the audiences are a fascinating combination of fashionable theatergoers, intellectuals, and pure-bred cockneys.

As for shopping, **the town still is a great clothing center for men.** Savile Row tailors (a generic term—not all the good tailors are on Savile Row) are in a class by themselves, will adapt within reason to your personal tastes. Their prices are modest—around $110 to $150. **And some excellent shoemakers,** such as Alan McAfee and Peal & Co., offer expertly crafted shoes ready-made for about $25, made-to-order for not much more.

Other London specialties for men: for **rifles and shotguns,** James Purdey & Sons; for **fishing gear,** Hardy Bros. and Ogden Smiths. Probably **your wife's best bet for shopping** are the top department stores—Liberty's, Fortnum & Mason, Harrods, Simpson's.

Leasing a car for vacation trips

For summer vacations on home shores, you may want to consider leasing an extra car for a few months. **Short-term auto leases** are becoming more readily available around the country. If your regular auto dealer offers no such service, other dealers in your area most likely do.

To give you an idea on costs: Say you want a new compact station wagon. Through an "affiliated" dealer in the New York area, for example, **you could lease a 1961 Rambler American at a $125 monthly rate for six months, or $199 for three months.** Your only other expenses as lessee would be for gas, oil, and washing. Another New York outfit will lease a 1961 Valiant station wagon (automatic transmission, radio, power steering) at a $229 rate for three months, $139 for six months. **Only added expense is for gas.**

If you decide to lease a car, check insurance coverage carefully, be certain the car has been road tested, and know (from instruction manual) what to do in an emergency.

Tax trends

If all the "reform" talk about taxes (BW—Apr.29'61,p109) has shaken up your thinking on Form 1040, you may gain some new insights from a survey, **Federal Tax Reform,** by Dan Throop Smith (McGraw-Hill, $7). It's a statement of tax issues and alternatives, with a proposed program to mull.

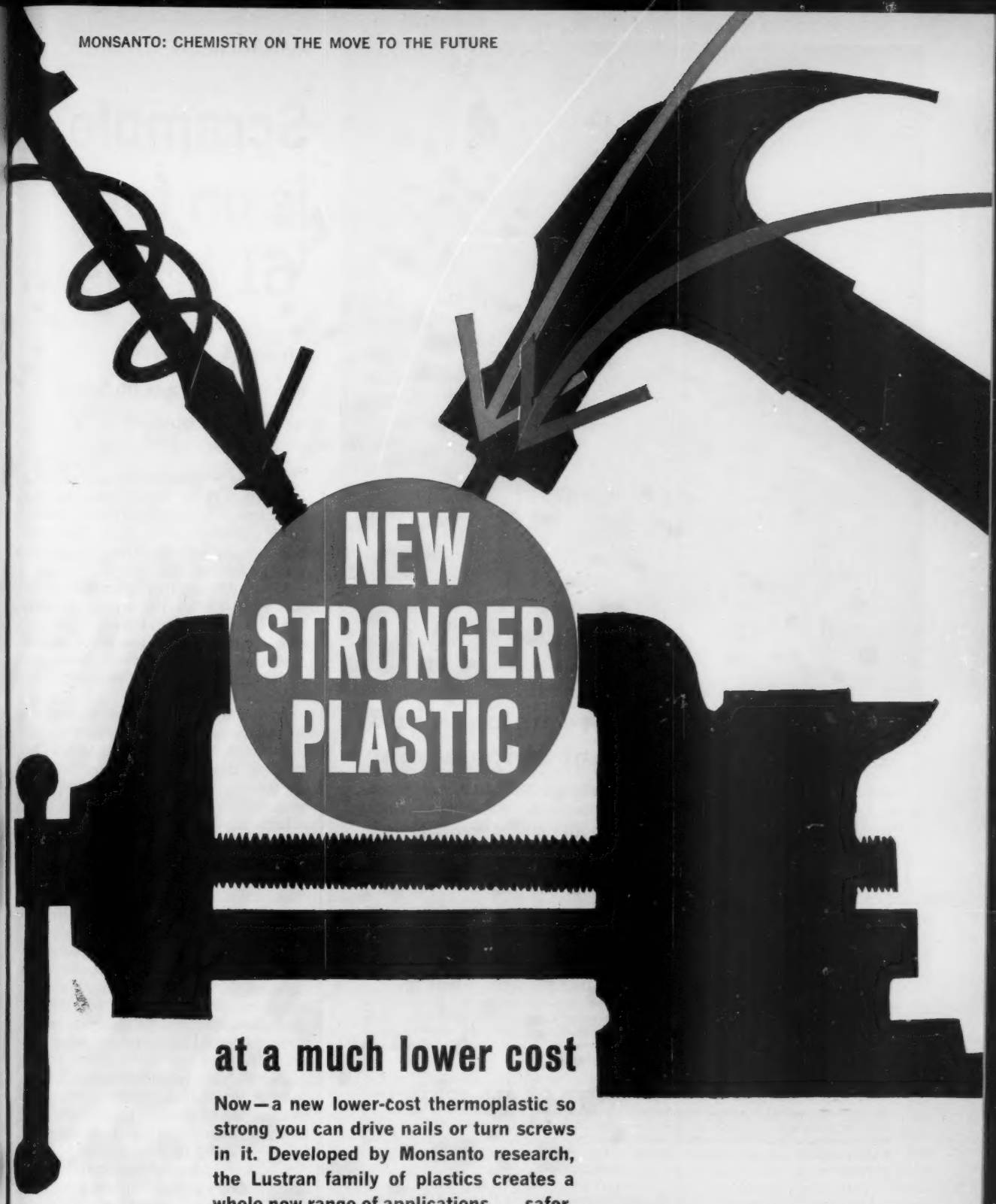
Tip for prospective yacht buyers: **Prices of larger used craft**—anything over 30 ft. or 35 ft.—**may head down** because of Treasury's tightening the tax deduction for business entertainment. You may chalk up a considerable saving by holding off the purchase a while.

The tax move has already had some impact on the market. If Congress approves the proposal to disallow deductions for yachts, there's likely to be even more of a price break.

Start packing

Luxury world cruises in 1962 already are being booked—for example, about a third of top space on next year's global cruise aboard **Holland-America's Rotterdam** has been taken (average tab, $8,120 per person) . . . **KLM Royal Dutch Airlines'** new "Circle" route provides flights to Amsterdam with stopovers in Europe and the West Indies (first class from New York, $1,064) . . . Soviet Union's **Intourist Travel Service** now lets you travel across Siberia en route to Tokyo . . . And for the first time, motorists can cross Canada this summer on **Trans-Canada Highway's** direct route from St. John's, Newfoundland, to Victoria, B. C.

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BALTIMORE

Scramble is on for '61 grads

After a slow start because of recession fears, hiring picks up

The college students who will be collecting their sheepskins in the next few weeks can breathe easier. After a year of uncertainty, the campus job outlook definitely is beginning to turn up.

Company recruiters made their usual rounds of the campuses this year. But many held back on actual job bids, waiting to see whether the recession really was over. Now students are getting offers in every mail, colleges report.

In a nationwide check of university placement officers and corporate personnel men, Business Week reporters did get conflicting reports on the employment picture (opposite page). There has been debate over whether industry's total hiring would fall short of last year's or just match it—nobody suggested that a sizable number of the graduating class would end up jobless. But the trend just in the past few weeks has become clearer—and more bullish.

Overcautious. Ordinarily, there wouldn't be so much uncertainty so late in the spring. By now, everything would be over but the shouting. But this year, there was more than the usual lag between interview and job offer.

Now companies that sat on their quotas may be in trouble. One personnel man predicts a terrific upsurge in hiring by June 1. Then good prospects will be hard to find. When it's all over, according to Robert F. Herrick, executive director of the College Placement Council, Inc., 1961 may even turn out fractionally better than 1960 for the students.

One reason that it has been hard to spot a trend is that some companies, pinched by high recruiting costs, cut down on their campus visits. Texas Instruments, Inc., for

From the recruiting angle, we would not have noticed the recession...
University of Georgia

A very busy season. No indications of cutbacks in hiring...
Northwestern University

Still very strong competition for the top of the class...
Inland Steel Co.

Most feel they'll need more men come summer...
Massachusetts Institute of Technology

Most companies said they were not as healthy as last year and will probably hire a few less people...
Georgia Institute of Technology

The mediocre student is a little scared...
University of Washington

Last year we took bodies that were lukewarm; this year they had to be hot...
General Electric Co.

A much more serious effort to get their money's worth, by being more selective...
Texas A&M

example, culled out schools that haven't produced. Lockheed Aircraft Corp. even made a serious effort to do more recruiting by mail.

As a result, the pattern has been spotty. The number of companies interviewing was down at Emory University, the University of Miami, and Iowa State University, but up at Massachusetts Institute of Technology, the University of California at Los Angeles, and Harvard Business School.

Programs vary. Hiring plans varied widely among companies. Chance Vought Corp. was looking for nearly three times as many men as last year, and Boeing Airplane Co. for 40% more; but some steel and aircraft companies cut back. Inland Steel Co.'s quota was down to a third of its 1959 one. Quotas were up for Glidden Co., down for General Electric Co., and Budd Co., about the same for Campbell Soup Co.

Service organizations, such as banks, and government agencies were out in force—and getting more than usual response from the students. Both groups have been doing a more professional recruiting job, placement officers said. One company found seniors seriously worried about the ethical climate in business today, but most attributed students' new interest in public service to the glamor of space laboratories and more competitive salaries.

How they pay. Over-all, salaries are running 3% to 5% above last year's levels. As usual, the chief demand is for engineers, scientists, mathematicians, and accountants. In March, a College Placement Council survey showed, electrical engineers were averaging $553 a month, physical scientists and mathematicians $539, and accountants $470, compared to less than $450 a month for general business and liberal arts students. Last month, schools reported somewhat higher offers, with some types of engineers nearing $600 a month and some accountants getting more than $500.

These figures apply to undergraduates. For Ph.D.s in engineering and science, says John MacDonald, placement head at the University of Pennsylvania, "it's best not to mention salaries. When people see them in print, they all want to quit their jobs and come back to school."

Greenest fields. Data-processing is the hottest new field. Equipment manufacturers want engineers to design and sell computers, and their customers want accountants and systems specialists to figure out what to do with the machines. Partly as a result, the biggest single jump in the job market is for accountants, who are in short supply.

For students with less specialized training, prospects are less bright. Liberal arts majors, for example, are in "sad shape" at Western Reserve University—although Texas A&M College notes a slight increase in demand for them, "perhaps because they can be hired cheaper." But there are fewer available these days; so many go on to graduate school that a good bachelor of arts is getting hard to find, according to a General Motors Corp. personnel man.

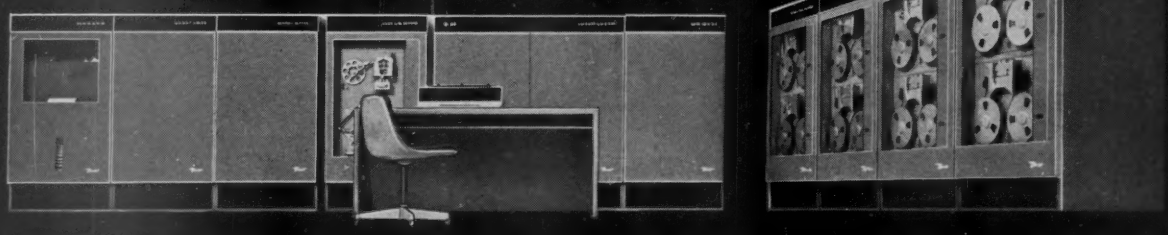
Graduate study. Some companies have dropped colleges like Amherst, Dartmouth, and Yale from their interview schedules because they found 70%-80% of the more talented seniors were headed for advanced degrees anyway. Harvard College's Office for Graduate & Career Plans has given up much of its placement work; its staff members spend most of their time handing out information on graduate study.

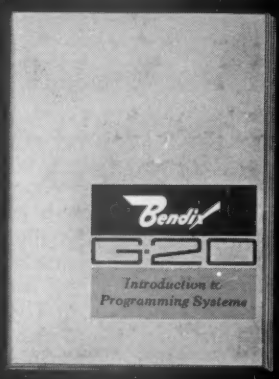
Grad school is luring more engineers and scientists, too; it has become a status symbol, one placement man complained to a recruiter. So this year there's less talk from companies about being interested only in the top quarter of the class. Actually, says a Goodyear Tire & Rubber Co. recruiter, industry is competing for the bottom half of the top half. The top part of the first quarter almost to a man is going on to graduate school and the rest of the first quarter is going into the military.

Companies are still being selective. But the stress, says Colgate University, is often not so much on grades as on the man himself. Except in the most technical fields, such "mitigating factors" as part-time work experience offset mediocre grades.

Low man. The only students in real trouble this year, placement directors agree, are draft-eligible nontechnical majors at or near the bottom of the class. Students below the top are having no more trouble than usual, says Georgia Institute of Technology. Top students may be getting fewer offers (the high man at Washington University has had only seven this year; last year it was 13), but they can still pick and choose. Concludes a recruiter from Libby, McNeill & Libby, "Recession or no recession, a good man is still hard to find." **End.**

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First-quarter earnings

[Thousands of dollars]	1960 Sales	1960 Net income	1960 Profit margin	1961 Sales	1961 Net income	1961 Profit margin
Allied Chemical	$184,161	$13,502	7.3%	$168,561	$ 9,480	5.6%
Alcoa	221,177	12,635	5.7	201,650	8,254	4.1
American Can	222,848	6,233	2.8	230,148	6,583	2.9
American Cyanamid	159,753	16,536	10.4	148,183	12,176	8.2
Amer. Machine & Foundry	74,961	6,832	9.1	114,659	7,527	6.6
Atlantic Refining	153,601	8,726	5.7	156,470	14,870	9.5
Borden Company	230,013	5,446	2.4	238,625	5,600	2.3
Borg-Warner	162,022	8,319	5.1	133,546	3,624	2.7
Burlington Industries	233,871	10,091	4.3	207,745	3,915	1.9
Chrysler Corp.	925,800	10,900	1.2	431,500	(21,900)d	
Corn Products	165,383	8,738	5.3	172,651	9,011	5.2
Crane Company	66,055	1,123	1.7	64,869	979	1.5
Douglas Aircraft	251,519	(6,949)d		204,868	1,716	0.8
Dow Chemical	188,960	16,533	8.7	182,485	12,143	6.7
Eastman Kodak	195,404	24,187	12.4	193,883	21,817	11.3
General Electric	957,433	52,614	5.5	992,622	42,476	4.3
General Motors	3,658,000	324,000	8.9	2,724,000	188,000	6.9
Gillette Company	51,915	8,413	16.2	62,164	10,045	16.2
Ideal Cement	18,032	2,302	12.8	21,726	2,612	12.0
Inland Steel	226,178	18,744	8.3	159,405	8,143	5.1
Int'l. Business Mach.	339,853	35,178	10.4	389,062	48,827	12.5
Johns-Manville	74,801	4,652	6.2	69,901	2,111	3.0
Martin Company	140,840	3,488	2.5	198,248	4,915	2.5
McLouth Steel	63,258	5,827	9.2	39,942	2,176	5.4
National Gypsum	45,092	3,792	8.4	41,486	2,744	6.6
Olin Mathieson	163,132	8,567	5.3	159,959	5,115	3.2
Owens-Illinois Glass	130,539	7,814	6.0	143,247	8,752	6.1
Peabody Coal	34,239	3,403	9.9	31,243	3,648	11.7
Philip Morris	119,706	4,479	3.7	123,847	4,710	3.8
Chas. Pfizer	68,722	7,102	10.3	72,178	7,505	10.4
Pittsburgh Plate Glass	158,200	12,145	7.7	128,995	3,586	2.8
Polaroid Corp.	20,186	2,253	11.2	14,000	200	1.4
Raytheon Company	134,752	2,160	1.6	138,158	1,365	1.0
Revlon, Inc.	29,886	2,535	8.5	32,950	2,690	8.2
Reynolds, R. J.	321,769	23,320	7.2	356,331	26,900	7.5
Robertshaw-Fulton	19,578	867	4.4	17,457	547	3.1
Safeway Stores	547,713	6,461	1.2	567,772	6,533	1.2
Scott Paper	80,213	6,577	8.2	79,419	6,586	8.3
Standard Oil (N.J.)	2,203,000	170,000	7.7	2,286,000	193,000	8.4
Texas Instruments	56,198	3,897	6.9	58,977	3,741	6.3
Union Carbide	395,302	42,091	10.6	364,299	33,724	9.3
U.S. Rubber	254,000	9,900	3.9	220,000	5,200	2.4
U.S. Steel	1,187,600	112,600	9.5	708,700	32,000	4.5
Upjohn Company	39,639	5,869	14.8	39,430	5,440	13.8
Westinghouse Elec.	458,817	19,496	4.2	436,103	9,067	2.1

d—deficit
Data: Business Week

FINANCE

Worst is over now

The first quarter should be the low watermark for the year in corporate profits. Orders are rising, but profit margins, still pinched, remain a question mark

Corporate profits in the first quarter (table) demonstrated what even a mild recession can do. As expected from early indications (BW—Apr. 22'61,p30), the quarter continued the profits slide that began in the second quarter of 1960.

According to New York's First National City Bank, first-quarter net of 692 nonfinancial companies dropped 15% below 1960's fourth quarter and 19% below a year ago.

However, it increasingly seems

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likely that this first quarter was the low tide of the year. Many companies report that March and April were their best months since early last summer, with a trend of new orders that should keep profits rising as the year goes on.

Copperweld Steel Co., for example, says steel shipments in March were the best since last summer. Westinghouse Electric Corp. says utilities are ordering more generating equipment. Link-Belt Co. sees a definite improvement in orders.

Profit margins. Chances of topping last year's profits in spite of the poor first quarter would be better if profit margins could be improved. Unlike most recoveries, this one shows margins remaining tight. Weakness in the ratio of net to sales was an early sign of the recession a year ago, and competitive pricing and the existence of excess plant capacity have kept the margin from widening.

Swimming upstream. Few industries bucked the downtrend of the first quarter: food chains, savings and loan holding companies, amusement companies, tobacco, and the oil industry.

Corn Products Co. reported the best first quarter in the company's history. Gillette Co., Borden Co., Revlon, Inc., and major tobacco companies improved their year-to-year comparisons. In many cases of such improvement, foreign operations provided the lift.

Impressive gains were made by oil companies, which started their comeback in mid-1960. Socony Mobil Oil Co. announced earnings of $59.8-million, a 27% rise from the first quarter of 1960; Atlantic Refining Co. reported a 70% increase in the same time; Standard Oil Co. (N. J.) figured its gain at about 14%. However, gasoline inventories are high, and oilmen fear the effect on profits unless refinery runs are reduced.

On the losing side. Steel companies and most other producers of durable goods faced the double squeeze of falling sales and shrinking profit margins. In steel, the comparison is still more painful because the first quarter a year ago was humming in the wake of the 1959 strike.

U. S. Steel Corp. had its worst strike-free quarter since the fall of 1952. Its net dropped from $112.6-million in first-quarter 1960 to $32-million this year—not enough to cover the 75¢ quarterly payment.

Chemical companies and auto manufacturers suffered, too. Chrysler Corp. showed a net loss of $21.9-million; General Motors Corp. profit dipped from $324-million a year ago to $188 million last quarter. **End**

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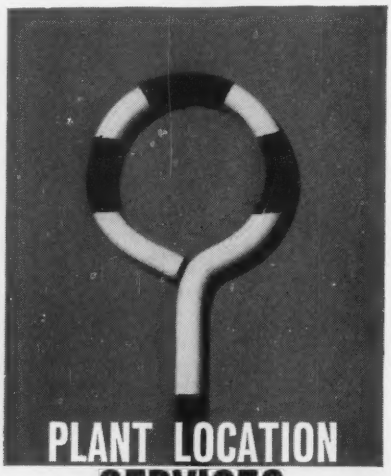
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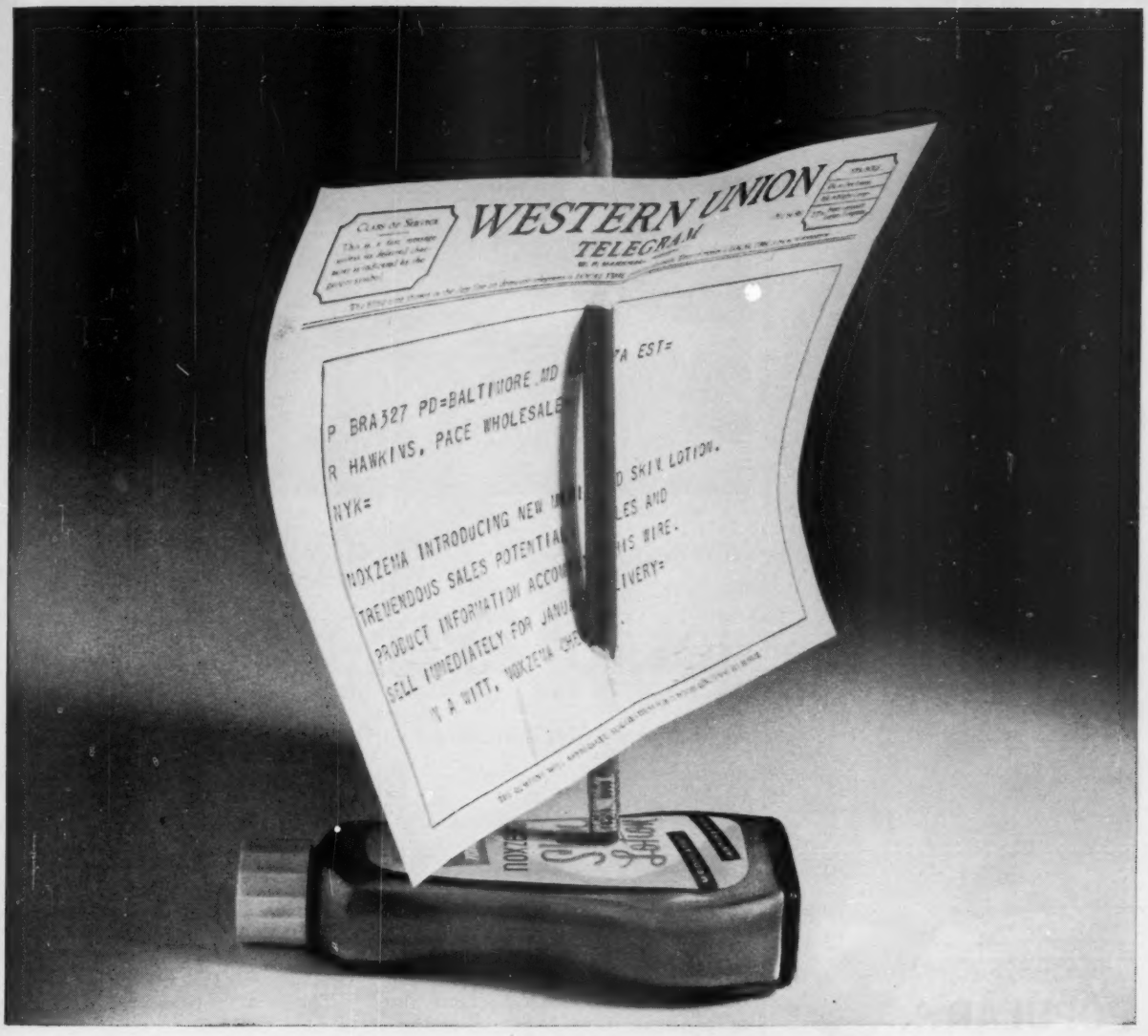
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NEW PRODUCTS

Jet for executives

Aero Commander confirms it will offer an eight-place plane designed to cruise at 500 mph. The roughly $500,000 price tag is only about half the cost of a Jetstar

At midweek, Aero Commander, Inc., confirmed industry rumors that it will build a smallish jet-powered business plane to cost around $500,000. That's about half the price tag on a 10-place Lockheed Jetstar, the only American-made jet in production expressly for corporation use.

Aero Commander, an Oklahoma subsidiary of Rockwell-Standard Corp., exhibited a full-scale mockup (picture) at a dealers' meeting. The twin-engine, eight-place jet is designed to cruise at better than 500 mph. at altitudes above 20,000 ft. T. J. Harris, Aero Commander vice-president and general manager, says he can make firm delivery dates starting in mid-1963. The price: a basic $475,000, rising to approximately $570,000 with full electronic equipment.

Harris thinks that tab will give Aero Commander a fast start in a new price bracket. He says the plane was made possible by General Electric's development of the economical and very powerful CJ610 jet engine, a commercial version of the J85 military engine. GE claims it has the highest thrust-to-weight ratio (8 to 1) of any engine for piloted aircraft.

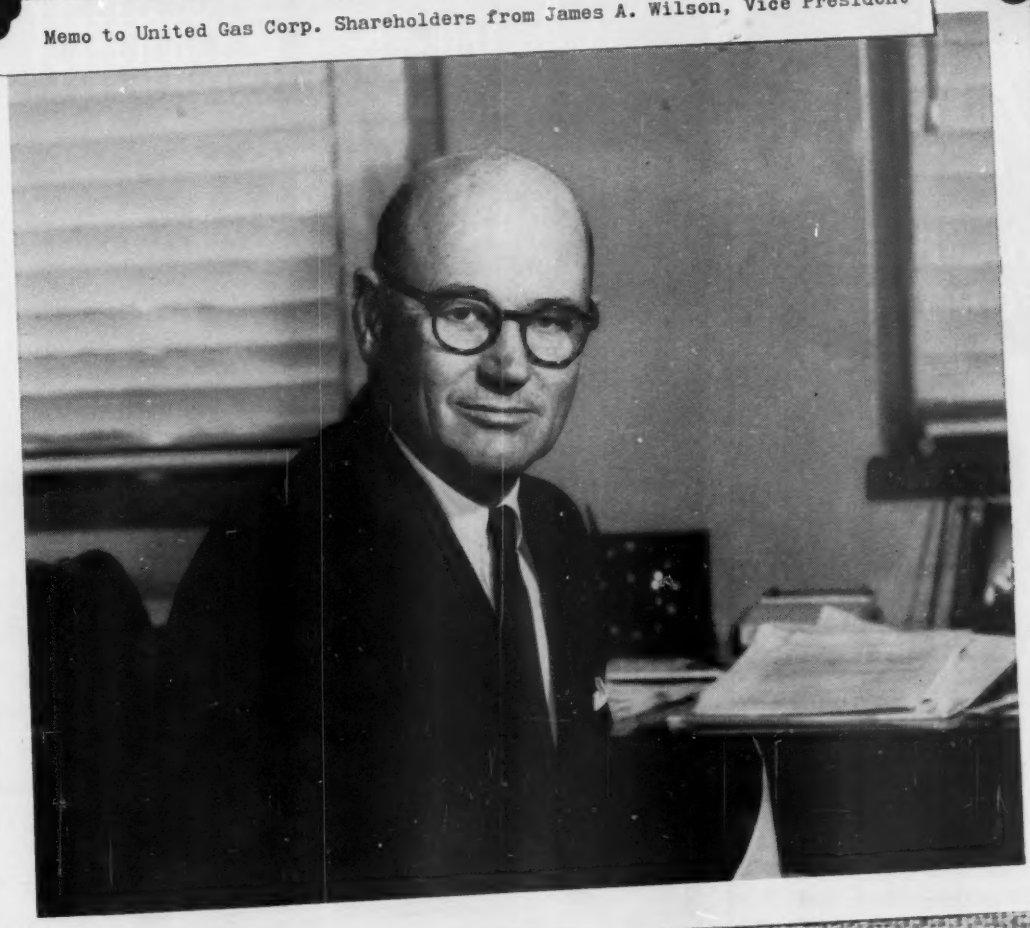
Short runways. Because of the boost provided by these engines, the Aero Commander plane will be able to use the relatively short, 3,000-ft. runways that can be found at most U. S. airports.

The new jet continues the styling of Aero Commander's line of piston-powered business planes. The two engines are mounted at the rear to give a quieter ride.

The Aero Commander company was formed after World War II just to design and build business planes. Since 1948, it has turned out some 1,050 twin-engine prop jobs. About four and a half years ago it began mulling over plans for a jet. Thirteen months ago, the board gave the go-ahead signal, and heavy engineering work began last summer. The first prototype is expected to go aloft early next year.

Certification. The deadline for production was set in 1963 to allow eight months for securing certification from the Federal Aviation Agency—a process that the Jetstar is going through now. Once Aero Commander gets going, it thinks it will be able to turn out at least 50 of the jets each year, against a total demand that it figures will reach between 100 and 500 planes. The company says the jets should double its

Memo to United Gas Corp. Shareholders from James A. Wilson, Vice President



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present sales, which run around $17-million a year.

Quite a few airframe makers around the world are working on plans for executive jets:

- Israeli Aircraft Industries has designed a six-place to nine-place jet aimed to sell for as little as $350,000 fully equipped. But whether it ever gets into production depends on market and service studies now being made.
- Douglas Aircraft Co. and Piaggio of Genoa have an agreement to develop a six-seat twin jet. Douglas would do the designing, with the Italian company handling the production. Its price would be around $500,000.
- William Lear, president of Santa Monica's Lear Inc., is working on his own with Geneva's Swiss American Aviation Corp. on plans for an eight-place twin jet that would sell for around $300,000.
- North American Aviation has a six-place twin jet that is already in use by the military, and could be switched for commercial service. It would be in the $1-million class.

Xenon gas bulb gives ultra powerful light

A new, powerful light bulb filled with xenon gas under pressure is being manufactured by Duro-Test Corp. in New Jersey, for use in movie projectors for large theaters, military and commercial searchlights, and lighthouse installations.

Rated at 8,000 watts, the bulb gives off light equivalent in intensity to 200 ordinary 100-watt light bulbs. Its rays can be seen for more than 50 miles. It works in the same way as a photographer's strobe lights—when current is passed through the bulb, the xenon gas is ionized and glows brightly. The difference is that Duro-Test's bulb is designed to give off continuous intense light, not short bursts of it.

Previously, the only kind of lamps as powerful as this were the carbon arc lamps, in which a burning carbon rod gives off the light. These are often used in searchlights and movie projectors, but they need constant supervision and maintenance while in operation. The rods burn up and have to be replaced every few hours; they give off gas that has to be taken off through exhaust pipes; and lenses get coated with carbon.

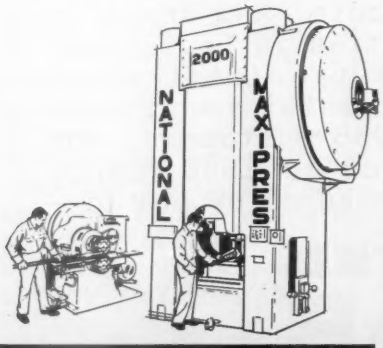
The new xenon lamp needs no maintenance, says Duro-Test, and has a life of up to 1,000 hours of continuous operation. **End**



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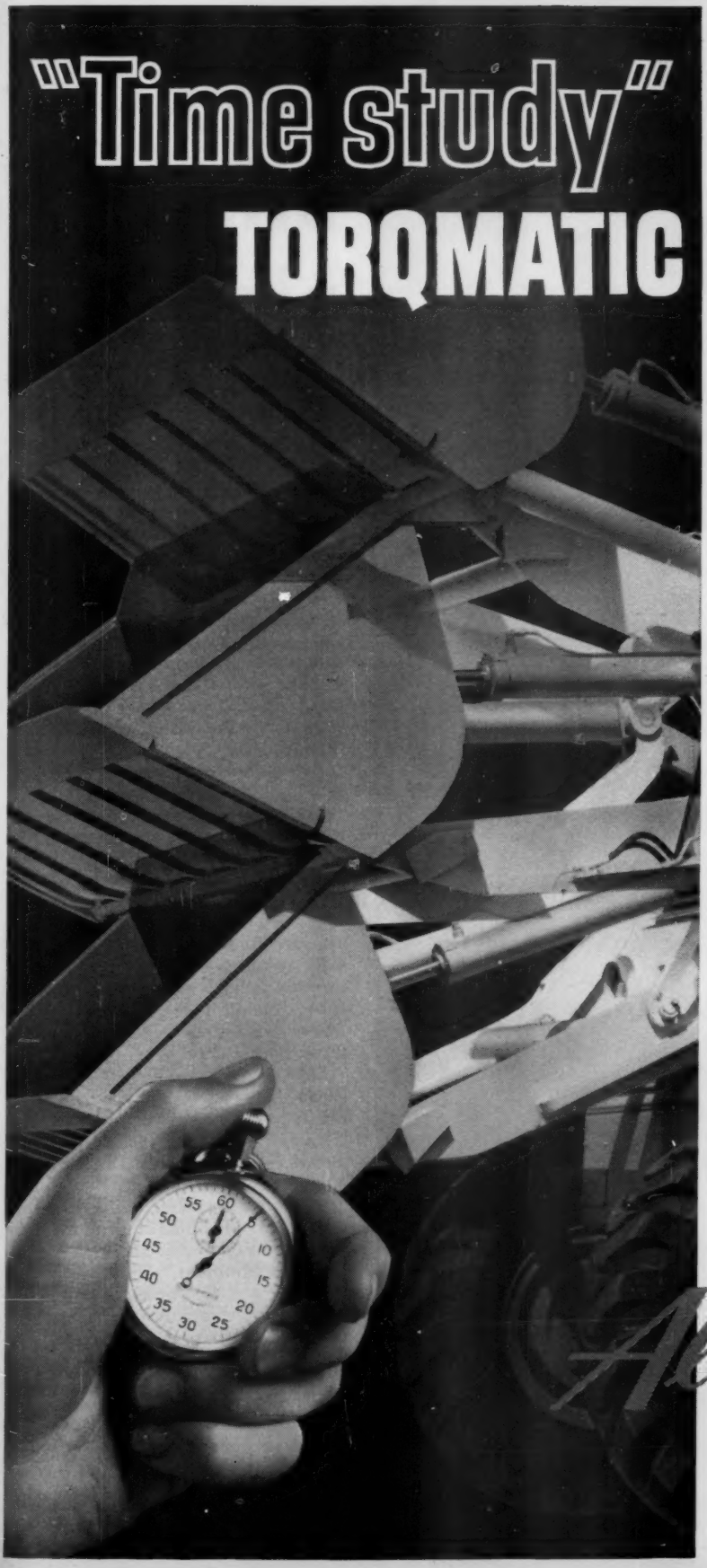
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Business economists take a breather among the Gothic towers of the University of Chicago during conference. Mostly, they were hopeful about the outlook.

ECONOMICS

What chronic slack?

Chicago conference told there's nothing seriously wrong with economy

Against the fitting background of Gothic towers (picture) and cubist modernity, 150 economists met at the University of Chicago last week to take a dispassionate look at some "Old Problems on the New Frontier." The occasion was the 10th Annual Business Economists Conference, staged by the Graduate School of Business.

After kicking around such old problems as taxes, monetary policy, government spending, unemployment, inflation, the government's role in labor relations, capitalism's alleged tendency toward stagnation—and the Kennedy Administration's approach to these issues, the economists appeared generally, but not universally, to agree with the conclusion of the principal speaker, Arthur F. Burns, chairman of Pres. Eisenhower's Council of Economic Advisers until 1956.

"I deem it only proper," said Burns, "to conclude by saying that the Administration has avoided extreme economic views, that it has in no way shown hostility to business enterprise, and that the economic moves actually taken by the Administration have been more prudent than some of its economic rhetoric."

"Stagnationism." What Burns did criticize was the proclivity to what he called "stagnationist theorizing" by New Frontiersmen. Burns disagreed sharply with the contention of Kennedy's CEA chairman, Walter W. Heller, that "we face a stubborn problem of chronic slack, and the road to recovery is a long one." On the contrary, said Burns, there is no chronic slack in our economy. He found the recovery problem today not very different from what it was

in 1949, 1954, or 1958. Full employment, said Burns, is "not a remote possibility . . . it may well be reached some 15 or 18 months from now."

The case for the new stagnationism, said Burns, rests almost entirely on the aborted recovery of 1959-60, which he treated essentially as a fluke—caused by a combination of bad fiscal policy, excessively restrictive monetary policy, and the accident of the long steel strike. But the brief and mild 1960-61 recession (BW—Apr.—22'61,p54), far from being proof that the economy stagnates chronically, seems to Burns to prove just the opposite: ". . . The mildness of the recent recession supports the thesis that the underlying forces of economic expansion are strong and that they have of late been only temporarily suppressed."

The University of Chicago's Milton Friedman strongly agreed with Burns' contention that the recovery after the 1958 recession did not abort on its own—but was aborted by bad policy. Friedman put the major part of the blame on the Federal Reserve. So tight were the Fed's policies, he said, that the money supply began to fall after mid-1959; its total fall does not look great on the surface—a decline of about 1½%—but, said Friedman, "There were only six episodes in U.S. history when the stock of money fell more—and they were all periods of depression."

Even pace. Friedman thinks that the unwisdom of the Fed's monetary policy in 1959 was no exception to its usual behavior. "If you look back," he said, "you find that the effect of monetary policy has been relatively destabilizing on the economy." Friedman's position is that the best thing for the Fed to do is try to keep the money supply growing steadily—not too fast, not too slowly—although "I know this may sound stupid." "Most people," he noted, "have been taught to believe that the Fed should always lean against the wind." Doing that, he believes, is much more difficult than is generally believed: "The problem is that the Fed has to lean against next year's wind—because of the time lag before changes in policy take effect."

Spending. Friedman also found fault with the fiscal policies of both the past and the present Administration. He deplored the persistent tendency for government expenditures to increase, as the existing tax structure yields higher and higher revenues resulting from the growth of national income. The continuous climb in government spending, said Friedman, is "Parkinsonian to a T." He wants to see taxes reduced—and



7-49

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thinks they never will be, if you wait for a surplus before you reduce taxes.

"I now think," said Friedman, "that we should have tax reduction in season or out of season, in order to get government expenditures under control." He would like to see taxes cut by $5-billion to $10-billion "to set a lower bench mark for government expenditures in the future."

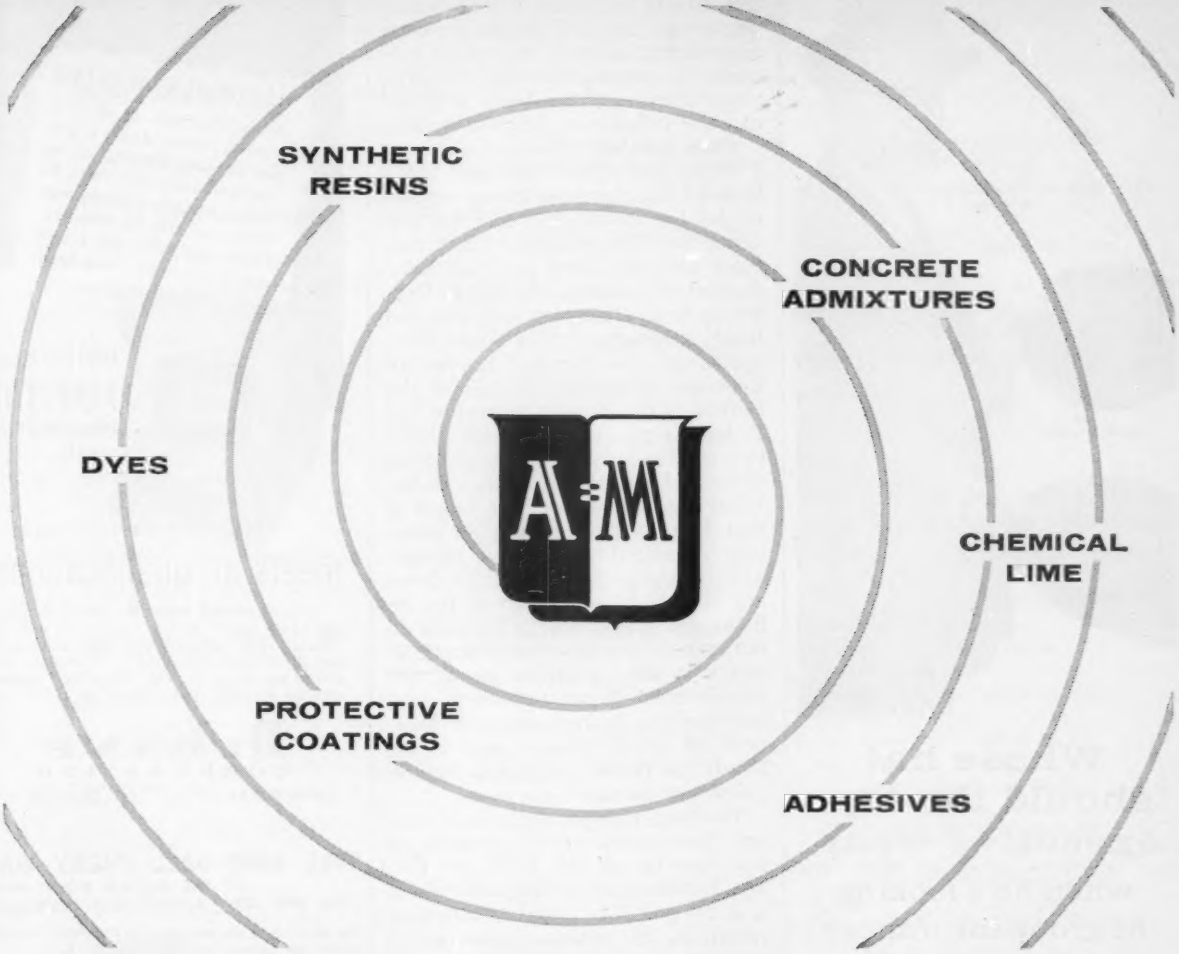
Like Friedman, Tilford C. Gaines, vice-president of the First National Bank of Chicago and a former vice-president of the Federal Reserve Bank of New York, felt that undue emphasis had been put on shifting monetary policy in order to keep the economy stable—on the assumption that the economy was highly unstable. Gaines argued that this was a false assumption, and that in the future policymakers should be less concerned about economic stability, more concerned about growth.

The efforts to hold back expansions had helped drag the economy down; and efforts to pump up demand during periods of recession helped breed inflation, Gaines thought. "Unnecessary jiggling," he said, "should be avoided—and monetary policy should then shoot for long-term goals."

"Permissiveness." The sort of economic "permissiveness" favored by Gaines was entirely at home at the University of Chicago, known as the leading center of what its critics would call 19th Century liberalism—that is, liberalism that would restrict the role of government in the economy or society to the necessary minimum (a minimum on which the Chicago liberals themselves do not always agree).

In the area of labor relations, for instance, Chicago's Arnold R. Weber argued strongly that the President's Labor-Management Commission (BW—Mar.25'61,p26) should steer clear of trying to set any sort of "formula" for collective bargaining wage settlements. Weber disagreed with the proposal of Yale's Henry C. Wallich that wage settlements be held down to about 2% per year—the approximate rate at which labor productivity increases—in the interests of price stability.

Even if the unions and management would go along with this—which Weber strongly doubted—he thought it would be a bad idea. Wages play an important role in allocating resources to their best uses in the economy; and to restrict wage changes to some percentage figure would be to assume that wage rates as between one industry and another, or that the division of income between labor and management,



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were set just right now—and, in effect, should be frozen. Weber in fact questioned the basic reason for even considering adoption of a wage formula: the assumption that excessive wage increases had been a major cause of inflation in the past decade.

What inflation? Chicago's George J. Stigler and Albert Rees, and Yale's Richard Ruggles gave strong support to this line by arguing that the evidence was by no means clear that there had even been any significant amount of inflation since 1950. Stigler has been chairman, and Rees and Ruggles members, of a study committee of the National Bureau of Economic Research, set up for the Bureau of the Budget, to review the Federal Government's price statistics—particularly the wholesale price index and the consumer price index. What this committee has found is that the price indexes are poor measures of actual inflationary change. Their study suggests that the indexes are biased—by and large on the inflationary side—because the data do not take proper account of improvements in the quality of goods, the introduction of new products, and substitutions by consumers or business of goods whose prices are steady or falling for goods whose prices are rising.

The Stigler committee's study does not give quantitative estimates of just how far off the WPI and CPI are. But Ruggles believes that there is a 2% per year phony inflationary creep in the price index—which would imply that we have really suffered no inflation at all since 1950. Rees thinks the false price creep is 1% per year, which would knock out about half of the 24% price rise in the CPI since 1950.

More faith. The mood of this conference, which was led by Dean W. Allen Wallis and Prof. Walter D. Fackler, was that there was little wrong with the U.S. economy that a little more trust in the free enterprise system wouldn't cure. One discordant note was struck by Sar Levitan, Deputy Executive Director of the President's Railroad Commission, who thought that structural employment was a serious problem, resulting from rapid technological change. He felt that the problem was likely to persist and worsen in the years ahead, unless the government intervened with specific programs to retrain workers, increase labor mobility, aid depressed areas.

Even Levitan, however, found "strong evidence that we have reached the bottom of the current recession and that the next few years will be a period of economic recovery and growth." **End**



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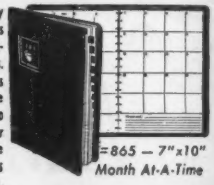
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The danger of tax tinkering

BW

The tax proposals that Pres. Kennedy has asked Congress to adopt this year are a very mixed batch of pickles. As the President himself says, this is not a comprehensive and consistent program of tax reform; it is a hastily assembled collection of separate proposals. Each of the various components of the program will require extensive analysis as Congress takes it up for action.

At this point, however, at least one of the Kennedy suggestions is clear enough to be judged on its merits or lack of them. This is his plan to give an incentive to capital spending by allowing a tax credit for investment beyond a specified percentage of depreciation allowances.

The aim of this proposal is admirable, and when some companies see the very substantial tax savings it would give them (up to 30% of their total tax liabilities in some cases), they will, perhaps understandably, be inclined not to look a gift horse in the mouth. Nevertheless, this gift horse is one that does require a careful dental examination.

The President's proposal, unfortunately, would do exactly the kind of thing that has so added to the complexities and inequities of the existing tax structure: It would use tax breaks to certain income recipients to encourage actions that the government wishes to favor, or in effect, to grant subsidies to certain kinds of economic activities.

The sliding scale of tax credits would seek to induce businesses to spend money on plant and equipment rather than for other purposes—which might well contribute even more, in the case of individual companies, to their growth and the growth of the nation. In addition, the proposal discriminates in favor of rapidly growing industries as against those laboring to generate sufficient funds for modernization or expansion.

Even worse, this legislation—in the judgment of experts in the field—is unspeakably complex and might lead to years of litigation. The very fact that the government has put in so many qualifying clauses is testimony to the clumsy and discriminatory nature of the proposal.

This is no time to add further complexities to our already labyrinthine tax system. The reform of that system—which Kennedy himself says is a must for the next session of Congress—should aim at simplicity and equity—with tax considerations playing a minimum role in the process of making business decisions. This tax credit proposal is completely in the wrong direction.

Doubtful gains

To raise $1.7-billion a year to offset the cost of the incentives for capital investment, the President proposes a variety of measures—including withholding at the source of the tax on dividends and interest, repeal of the dividend credit, tighter rules on deductible business expenses, and tougher treatment of income earned overseas.

It seems highly doubtful that some of these will produce as much revenue as the President hopes. Withholding the tax on dividends and interest, for instance, may catch some income that now escapes taxation, but much of the money that is collected will have to be refunded eventually because it goes to pensioners or small holders who owe no tax.

The proposal for new taxes on foreign operations of American corporations is a somewhat different matter. It is made against the background of the deficit in the U.S. balance of payments. In seeking to repeal the current deferral of taxes on earnings of American subsidiaries operating in industrialized foreign countries, the Administration is hoping to encourage a prompter—and larger—return of taxable earnings to the U.S.

The same objective is behind the President's recommendation to abolish tax deferrals for companies operating in foreign "tax havens"—a practice that has also complicated our balance-of-payments problem. The Administration charges that tax havens are being abused by tax evaders, that they not only defer taxation but sometimes manage to avoid taxes entirely in repatriating earnings.

Switching signals

No one can deny the fact that the emergence of the balance-of-payments problem calls for a variety of countermeasures, including changes in taxation. Nor can there be any argument against the Administration's efforts to cut down on abuses that are possible under present law.

But the fact is that ever since World War II, Washington has encouraged American companies to increase their investments overseas. In effect, the Kennedy Administration is saying that this program worked too well and that it must now abolish any inducements to invest abroad, at least in the industrialized countries.

Most American corporations that have invested abroad on a long-term basis feel that this switch in philosophy amounts to putting a penalty on them for risking their capital to do what the government once wanted them to do. They complain that they would not have made such commitments on a temporary basis, and they contend that repeal of tax deferral now will give foreign companies, which already are providing intense competition, a definite advantage in the fight for world markets.

In the long run, these companies argue, the President's proposals could increase the strain on our balance of payments rather than relieve it.

In the circumstances, it is particularly important for Congress to make sure that it has heard all sides and considered all available evidence before it acts. The final version of any legislation in this area must be carefully drawn so that it will not hurt but help the balance-of-payments situation, with an absolute minimum of injury and injustice to investors who have sent their money abroad in all good faith.

